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To: Senator Mark Hass and Representative Phil Barnhart, Co-Chairs, Joint Committee on Tax Credits

From: Senator Lee Beyer, Chair and Senator Fred Girod, Vice-Chair, Committee on Business and Transportation

Date: April 27, 2015

Subj: Senate Bill 801A: Job Creation Tax Credit

The Senate Business and Transportation Committee heard Senate Bill 801A and passed it to the Joint Committee on Tax Credits for further consideration. The measure was properly noticed and scheduled as well as part of a public hearing. Senator Ted Ferrioli appeared in support of the measure.

Below are responses to questions posed in Appendix D, on page 101 of the Legislative Revenue Office's Research Report No. 2-15, *2016 Expiring Tax Credits* (RR 2-15). Although Senate Bill 801A is a proposal for a new tax credit, the Business and Transportation Committee used the RR 2-15 questions in an attempt to provide more thoughtful insights on the measure. The responses are based upon information from the Legislative Fiscal Office and the Business and Transportation Committee hearing.

- **What is the public policy purpose of this credit? Is there an expected timeline for achieving this goal?**

  The public policy purpose is to incentivize job creation through tax credits. The supporters plan for the tax credit to be a positive revenue generator for Oregon through increased income taxes and reduced demands on social services.

- **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?**

It is directly targeting employers with 100 or fewer employees who create 10 or more new positions during the tax year. The credit allowed would be $1,000 per new position created for jobs that earn above the community average wage.

While it is difficult to estimate how many businesses would claim the tax credit created by the bill, the Legislative Fiscal Office looked at available data to determine how many businesses in Oregon would potentially be eligible for such a credit, and is estimating that 20,500 businesses could potentially hire 10 or more positions at the median income. The Department of Revenue (DOR) further assumes that 5% (1,125) of such businesses will actually claim the credit in the first year, and 300 businesses will request initial certification or continue requesting the credit certification going forward.

- **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%?**

  Currently, this tax credit does not exist.

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

  Information was not available at this time regarding 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?**

  The measure specifies additional requirements for the tax credit, including that the taxpayer receive written certification of eligibility from the DOR. The department is required under the bill to adopt rules, policies and procedures necessary to implement the bill.

  DOR estimates that the measure will cost $187,546 to fund 2 positions (0.88 FTE) and associated services and supplies costs to address the additional workload associated with the program, including certifying the tax credit, providing education, and handling appeals of denials. However, it should be noted that there could be additional costs to the agency, which are indeterminate at this time, because changes would need to be made to the Core Systems Replacement (CSR) project to comply with the start date in the bill. The agency has stated that a start date of January 2017 rather than January 2016 would better accommodate the phase-II rollout of the CSR project, which includes the Personal Income Tax and Compliance program, among others.

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

  Information was not available at this time regarding other incentives.

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

  It should be noted that further analysis will be needed at the end of this legislative session to determine the net fiscal impact to DOR and phase-II of the CSR project of all measures passed making changes to tax credits.

  Additionally, this bill would have a revenue impact depending on the number of employment positions that would enable employers to claim the tax credit. Further analysis will be done when the bill is in the Joint Committee on Tax Credits.