Oregon Exempts Almost as Much as It Collects in Property Taxes

SUMMARY OF OREGON TAX PROGRAMS WITH TAX EXPENDITURES (Dollars in Millions)				
Tax Program	Number	Estimated Revenues 2017-19	Revenue Impact 2015-17	Revenue Impact 2017-19
Income (Personal and Corporate)	190	$18,443.0	$12,351.5	$13,464.7
Federal Exclusions	60		$5,624.4	$6,556.8
Federal Adjustments/Deductions	42		$2,862.9	$2,888.5
Oregon Subtractions	26		$1,968.1	$2,143.1
Oregon Credits	56		$1,687.5	$1,633.6
Other Oregon Provisions	6		$208.6	$242.7
Property	137	$13,100.0	$9,846.3	$10,446.1
Full Exemption	97		$8,786.3	$9,299.2
Partial Exemption	26		$516.7	$571.3
Special Assessment	13		$543.2	$575.5
Other Assessment	1		$0.1	$0.1
All Other State Taxes with Tax Expenditures	40	$4,136.1	$326.8	$351.9
All Taxes with Tax Expenditures	367	$35,679.1	$22,524.6	$24,262.7

2017-19

- State & local property: $2.9 B
- Federal property: $1.9 B
- Personal property: $1.3 B

- Strategic Investment Program (SIP): 447 million
- Ezones: 74 million
- Long term ezones: 55.1 million
- Commercial buildings under construction: 15.1 million
- Food processing equipment: 6.3 million

- Motor vehicles & trailers: 988.9 million
- Charitable organizations: 190.7 million

2.032 FOOD PROCESSING EQUIPMENT

Oregon Statute: 307.455
Sunset Date: 06-30-2020 (for first year exemption), 06-30-2024 (for final year exemption)
Year Enacted: 2005

2017-18 Estimated Reduction in the Taxable Assessed Value: $185 million

	Loss	Shift
2017-19 Revenue Impact:	$6,300,000	$1,300,000
2019-21 Revenue Impact:	$8,800,000	$1,800,000

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

DESCRIPTION: Upon application, qualified real or personal property machinery and equipment that is newly acquired by a food processing businesses is exempt from property taxation for five years. The machinery or equipment may be new or used, as long as it is newly acquired by the food processor. Food processing businesses are those that freeze, can, dehydrate, concentrate, preserve, process, or repack fruit, vegetables, nuts, legumes, or seafood in any procedure that generally occurs before the first sale by the processor. Producers of alcoholic beverages are ineligible.

Legislation in 2015 (HB 3125) expanded the exemption to include machinery and equipment used to process grains, bakery products, dairy products, and eggs, and prohibited anyone engaged in the business of producing marijuana or any product containing marijuana or a marijuana extract from qualifying for the exemption. The legislation also required qualified machinery and equipment used to process grains and bakery products to have real market value of at least $100,000 when placed in service in order to qualify for the exemption. However, the 2016 Legislature modified this provision to require the total cost of initial equipment investment by the food processor to be at least $100,000 to qualify for the exemption.

Qualified machinery is certified by the Oregon Department of Agriculture. Machinery and equipment is exempt for five years following certification.

In the 2013 Legislative Session, the sunset date for this property tax exemption was extended (HB 2735). The last tax year property may qualify for a first year exemption is tax year 2019-20, and the last tax year a property may receive a fifth and final year exemption is tax year 2023-24.

PURPOSE: "The Legislative Assembly declares that a property tax exemption for qualified real property machinery and equipment encourages continued operation and expansion of the food processing industry in this state" (ORS 307.453).

WHO BENEFITS: Food processors that acquire machinery and equipment. For tax year 2017-18, 27 businesses used this exemption for 122 pieces of equipment.

EVALUATION: *provided by the Oregon Department of Agriculture*

Not only do Oregon's food and beverage processors have to be competitive with their out of state competitors, they also have to be competitive in the global marketplace.

Opportunities to make capital investments that provide gains in efficiencies is one strategy that can help these businesses remain competitive.

This tax exemption has encouraged food-processing companies to replace aging equipment with more energy efficient, modernized equipment. Investments made by local businesses are an investment in local jobs and the health of the local community. Expanding the exemption to additional food-processing sectors further enhances job stability and economic vitality and opportunities for the local community. And since processors try to be located close to the source of their ingredients (ex. Oregon agricultural commodities) this investment also positively impacts rural communities.

The exemption also allows for Oregon to be more competitive when recruiting new business for Oregon. This aids in economic development, and competitiveness of Oregon based food processors and related jobs.

This exemption encourages reinvestment in food processing of local production, on farm value added opportunity, and job creation in this industry.

The exemption is narrowly targeted, and serves its purpose of creating investment, retaining and expanding jobs, and creating additional markets for Oregon growers.

The food and beverage processing sector adds value to Oregon's agricultural commodities which in turn provides strength to Oregon's economic stability.

Finance and Taxation

Cities are the hub of economic development, providing water and sewer facilities, a good transportation network, as well as dependable police and fire protection that enable businesses and citizens to thrive. To ensure that Oregon's cities are desirable places to live and to work, local governments must have the financial resources to provide sustainable, quality public services, and each city must find a mix of revenues that support these services.

Principles

Taxation authority — the use of property taxes at the local level properly recognizes the nexus between the imposition of the tax and the provision of local services to property owners.

Cities must have the authority to establish a broad revenue base that includes taxes, assessments, fees, and other charges, in order to support the array of services desired and demanded by residents and businesses.

Tax restrictions — limitations on revenue authority and special exemptions from property taxes, whether enacted by the state or federal governments, or created by voter-enacted initiatives, undermine the ability of cities to maintain a healthy mix of revenues and support a broad array of services.

Policies aimed at controlling the level of property taxes and assessment of property value should be constructed in a way that recognizes the differences between various communities' desired levels of service and ability to finance those services.

Tax exemptions — to the extent that the Legislature considers property tax exemptions, clear criteria defining the policy goal of the exemption and the rules for granting the exemption should be developed, and such exemptions should be granted only at the option of local governments. If exemptions are granted by the Legislature and are not at the option of local governments, the state should fund the costs of the exemption.

Financing tools — cities should have broad authority to use a variety of creative financing tools to support the development of infrastructure and urban redevelopment, the creation of incentives to attract private investment and public-private partnerships, and to further economic development, including tax increment financing, systems development charges, and targeted tax abatements or exemptions.