

Tax Credit Review & Report

Prepared for 2023 Legislative Session Review

Senate Interim Committee on Finance and Revenue - 12/8/2022

State of Oregon

LEGISLATIVE REVENUE OFFICE





Overview of Presentation

- Brief History & Overview of Tax Expenditures & Tax Credit Report
- What is a tax expenditure
- Tax credit review process and report
- 2023 tax credit report
 - Introduction into each of the four tax credits up for review in 2023



Brief History & Overview of Tax Expenditures and Tax Credit Review





General Background on Tax Expenditures

- ORS 291.201 Tax Expenditure defined:
“**tax expenditure**” means 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
- Governor’s Tax Expenditure Report
- Income Tax Expenditures
 - Federal exclusions | Federal adjustments | Federal deductions | Oregon subtractions | **Oregon credits**





Tax Credit Review Process

- Biennial review of personal income tax and corporate income tax credits scheduled to sunset in upcoming biennium
- LRO prepares a report accompanying biennial review process (ORS 315.051)
- Credit reviews facilitated by individual credit legislation extending sunset by 6-years (Senate & House chambers)
 - 2023: LC's 1559, 1561, 1562, 1564





Statutory Requirements of the Review

- **ORS 315.051 | Report by Legislative Revenue Office**

- Report prepared prior to beginning of odd-numbered regular session
- Statute includes 11 deliverables in the report:

• Stated policy purpose	• Purpose achievement timeline	• Achievement measurements
• Beneficiaries	• Effectiveness	• Expected results if allowed to expire
• Background information other states	• Effectiveness / efficiency of achieving stated policy goal	• Administrative costs
• Analysis of direct appropriation alternative	• Other incentives with similar policy	

- **ORS 315.047 | List of tax credits with revenue impact in excess of projection**

- List of recently enacted or modified tax credits where revenue impact exceeds original revenue impact statement accompanying the enactment/modification

- **ORS 315.044 | Statement of purpose**

- Legislative requirement that proposed tax credit or expansion of a tax credit includes statement of purpose provided by chief sponsor or a proponent of the measure



Tax Credit Report 2023 Session





LRO Tax Credit Review Report

- General Review Components
 - 1)Description of policy purpose
 - 2)Description of the credit and its historical revenue impact
 - 3)Policy analysis
 - 4)Discussion of other issues
- Report released at beginning of odd-numbered regular session
- LRO presents credit review to legislative committees





2023 Tax Credits to be Reviewed

Estimated Cost of Extending Tax Credits

\$ Millions

Tax Expenditure Report Number and Credit Name	ORS	Sunset Date	-----Biennium-----		
			2023-25	2025-27	2027-29
<i>Scheduled for Review by the 2023 Legislature</i>					
1.403 Opportunity Grant Contributions	315.643	2024	\$13.1	\$27.5	\$28.0
1.439 Fish Screening Devices	315.138	2024	< 50K	< 50K	< 50K
1.413 Agriculture Workforce Housing Construction	315.163-172	2026	\$0.0	\$0.8	\$4.2
1.426 Oregon Affordable Housing Lender	317.097	2026	\$0.0	\$0.8	\$4.1
SUBTOTAL			\$13.1	\$29.2	\$36.3



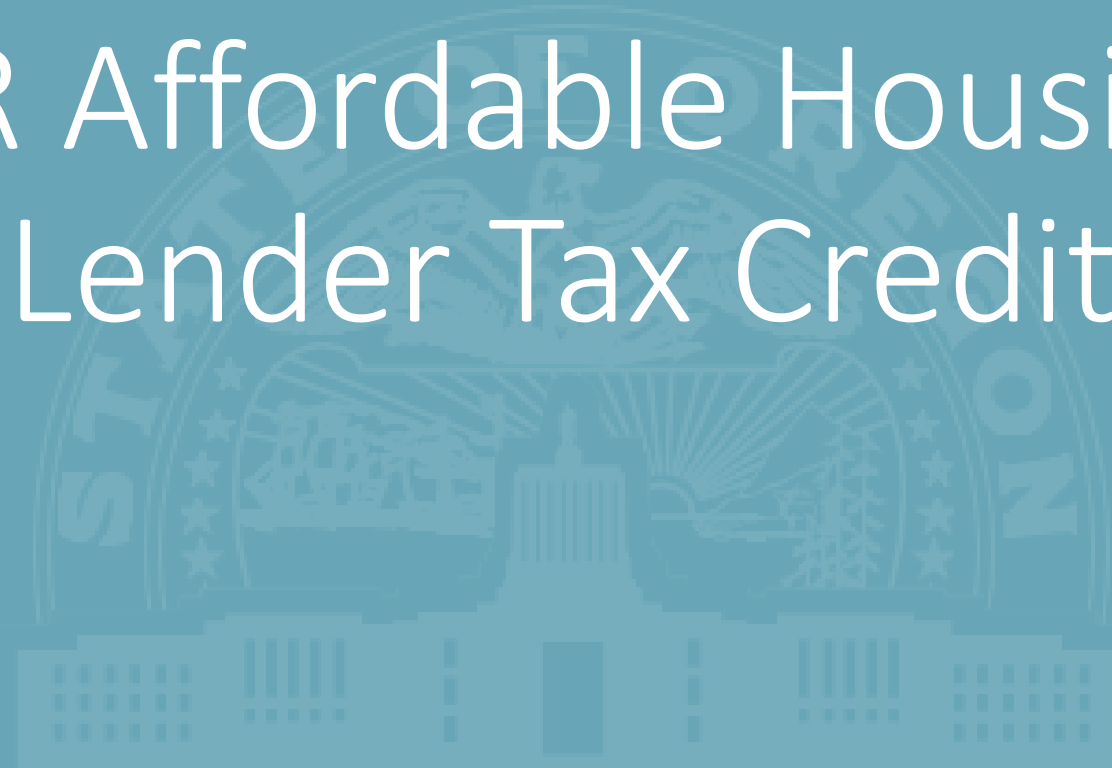


Themes of the 2023 Review

- Four tax credits total, three credits have received at least one review in the past, 1st review for Opportunity Grant Contributions
- All 4 credits intermingle with direct appropriations



OR Affordable Housing Lender Tax Credit





Oregon Affordable Housing Lender Credit

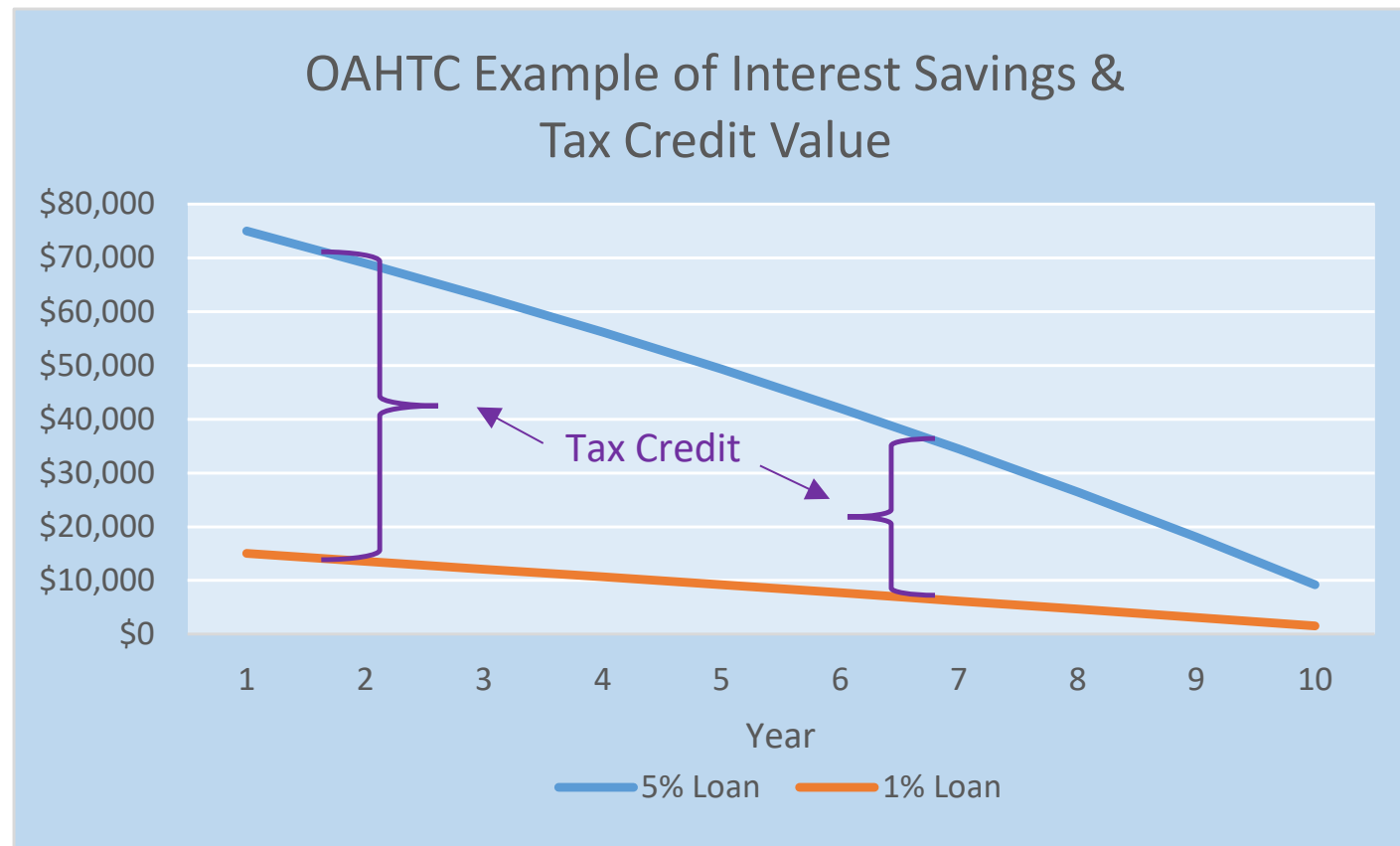
- **Purpose:** Support development of affordable housing, preserve housing with federal rent subsidy contracts, preserve manufactured dwelling parks
- Lenders that make qualified low-interest loans are allowed a tax credit equal to the difference between the rate offered and the market rate, up to a 4% difference
- Eligible projects: construction, development, acquisition, or rehabilitation of low-income housing, a preservation project, or a manufactured dwelling park preservation project
- Loans must be certified by the OR Housing & Community Service (OHCS)
- There is a program cap of \$35 million in outstanding tax credits
- Low-income housing is required to pass on the savings from the reduced interest rate to tenants in the form of reduced housing payments, no requirement for preservation projects or manufactured dwelling park preservation projects





Oregon Affordable Housing Lender Credit

- Simplified example





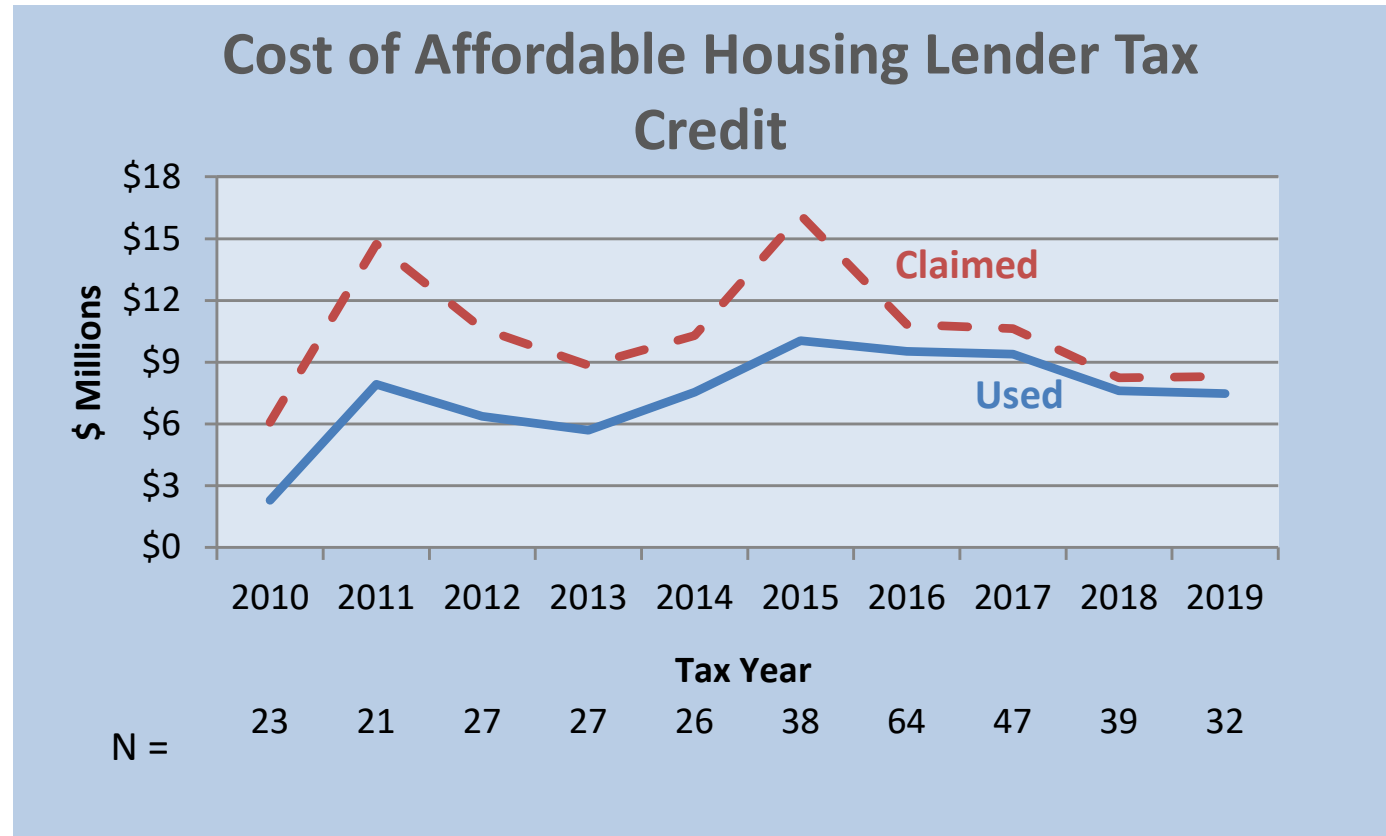
Affordable Housing Lender – Flow of Benefit

Lending Institution	Qualified Borrower	Affordable Housing Tenants
<p>Absent credit, would lend at interest rate of 5%</p> <p>With credit, lends to qualified borrower at 1%</p>	<p>Benefits from being able to borrow at 1% instead of 5%</p> <p>Pass Through Required: Interest rate savings are passed through to tenants in the form of reduced housing payments</p> <p>Pass Through not Required: Interest rate savings accrue to qualified borrower</p>	<p>Pass Through Required: Tenants benefit directly from credit through additionally reduced housing payments</p> <p>Pass Through not Required: When no rent pass through required, tenants benefit from preservation of affordable housing (housing subject to other affordability restrictions)</p>





Oregon Affordable Housing Lender Credit



Agriculture Workforce Housing Tax Credit





Ag. Workforce Housing Tax Credit

- ***Purpose:*** Ensure adequate agricultural labor accommodations commensurate with the housing needs of Oregon's workers
- Credit available to corporate or personal income taxpayers that are owner or operator of agriculture workforce housing
- Credit = 50% of eligible costs to complete agriculture workforce housing project
- Eligible housing projects: construction, rehabilitation or acquisition of agriculture workforce housing
- Eligible costs: Acquisition, finance, construction, excavation, installation & permits
- Limited to occupancy by agricultural workers & immediate family (includes retired and/or disabled ag. workers)
- Credit taken over 10 years, may take up to 20% of credit value in any one year, transferable, 9-year carryforward
- Sunsets 1/1/2026 for new certifications
- Limit: Total potential credits for all approved applications may not exceed \$16.75M within the biennium

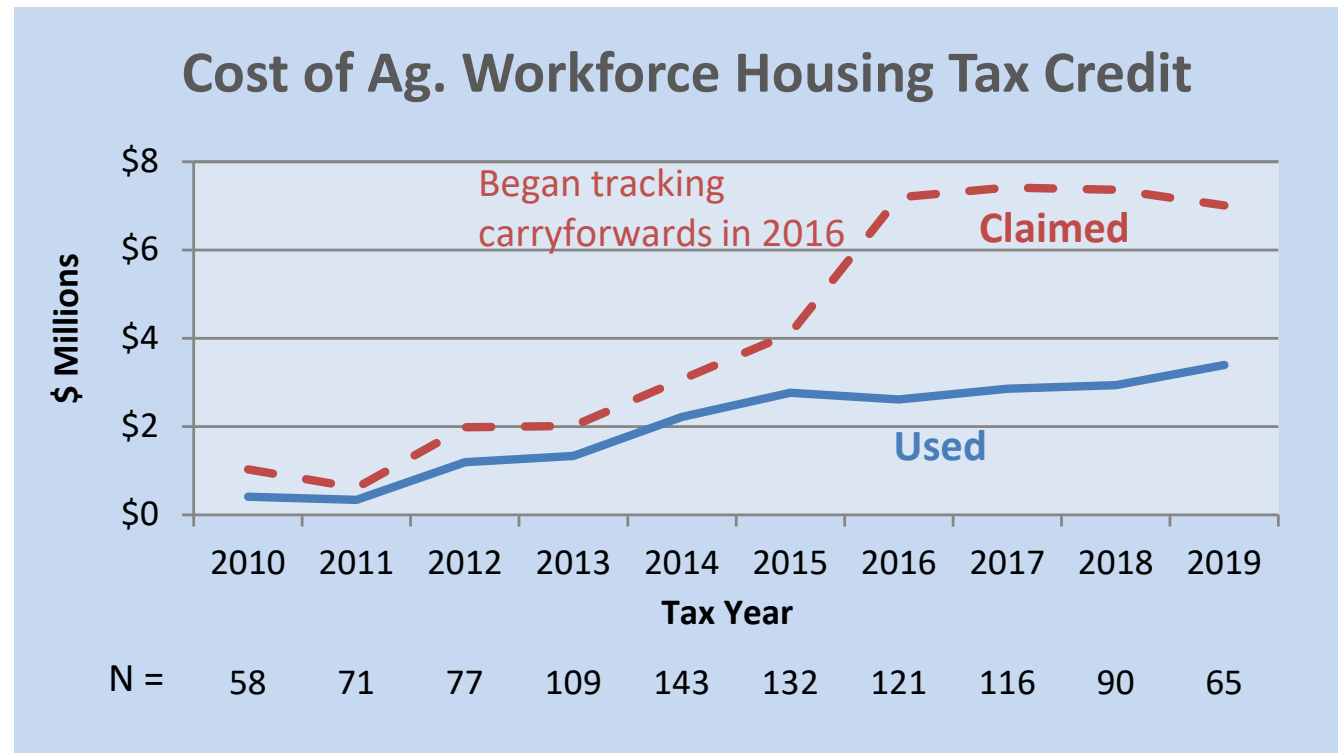




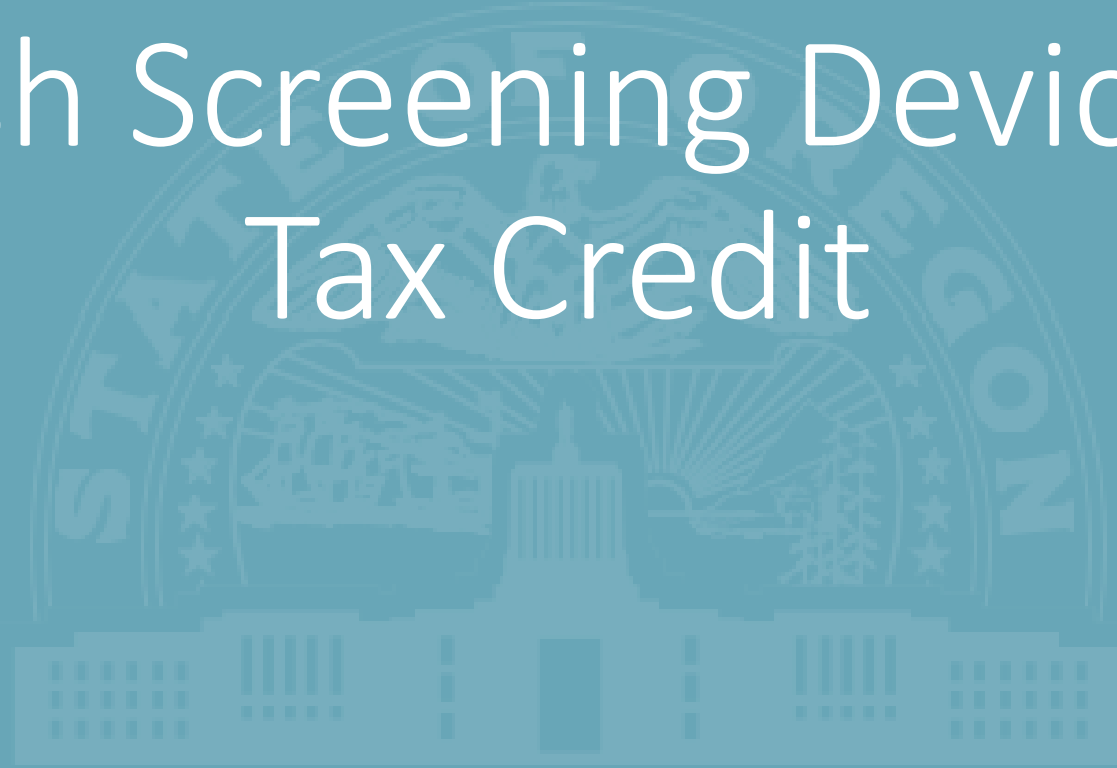
Ag. Workforce Housing Tax Credit

Type of Housing

- 80% of credit is dedicated to community-based housing
- 20% of credit dedicated to on-farm housing



Fish Screening Devices Tax Credit





Fish Screening/bypass Device Credit

- **Purpose:** Providing passage for native migratory fish...restoration of Oregon's native salmonid populations
- Tax credit allowed to taxpayers installing a fish screening device, bypass device, or fishway
- Devices primarily on agricultural land to divert fish from irrigation canals
- Credit= $50\% \times$ certified cost of installing device (up to \$5,000 per device)
- Device must have preliminary and final certification approval from OR Dept. of Fish and Wildlife (ODFW)



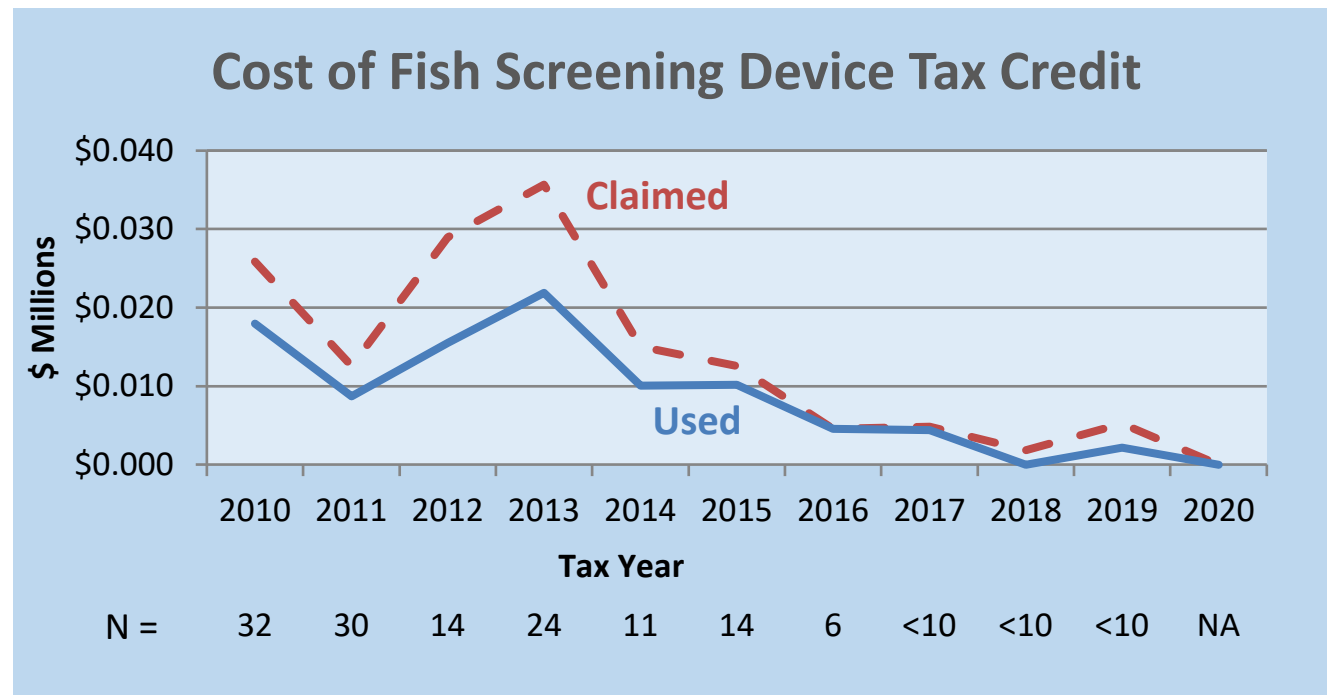


Fish Screening/bypass Device Credit

Solar Powered Rotary Drum Screen



Historic Cost of the Credit



Opportunity Grant Auctioned Tax Credit





Opportunity Grant Auctioned Credit

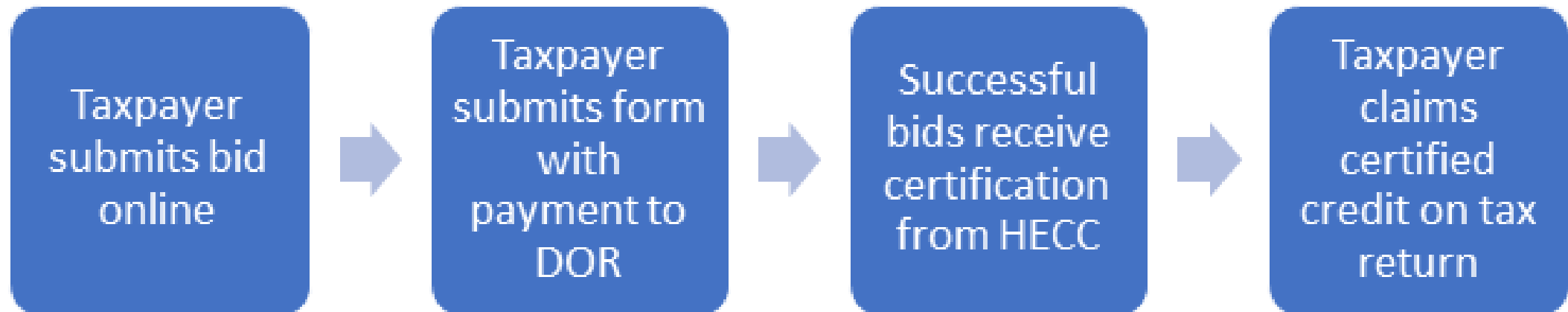
- **Purpose:** Establish an additional funding source for Opportunity Grant program, resulting in net increase in funding
 - Secondary purpose: work around SALT limitations
- Taxpayers purchase tax credits sold at auction held by Department of Revenue
- Proceeds of tax credit auction deposited into Opportunity Grant Fund
- Tax credits sold in \$500 increments, minimum auction bid price of \$450 (90% of credit face value)
- Maximum \$14 million in credits sold at auction per fiscal year





Opportunity Grant Auctioned Credit

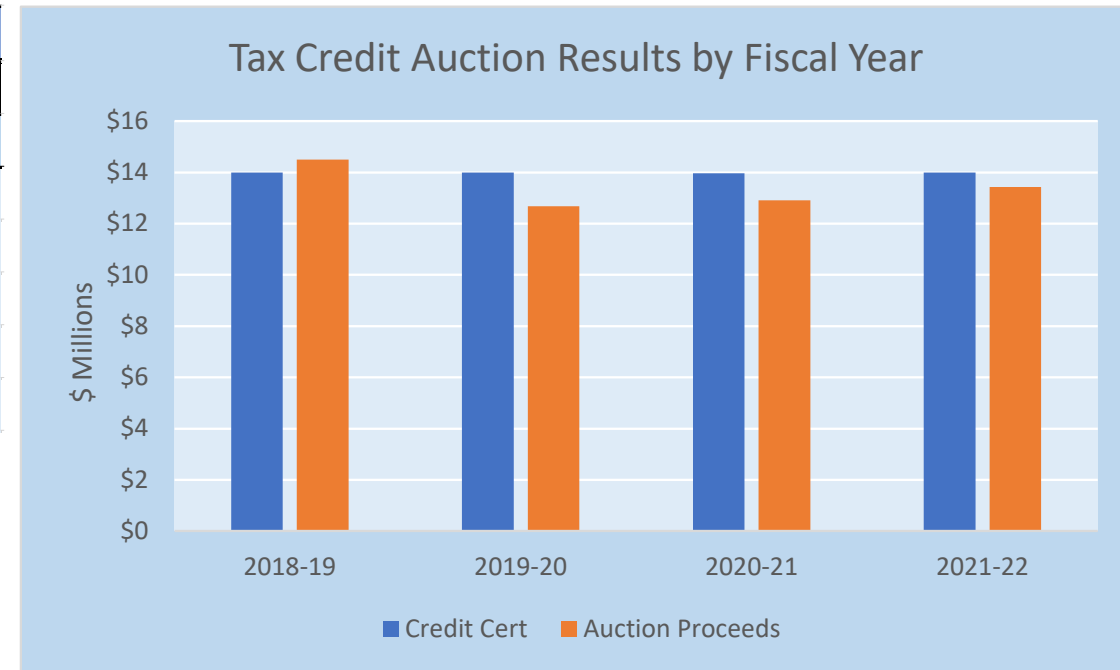
Tax Credit Auction Process





Opportunity Grant Auctioned Credit

Opportunity Grant Tax Credit Auction Results, by Fiscal Year				
	2018-19	Auctions Post IRS Rule Modification		
		2019-20	2020-21	2021-22
Total Certified Credits	\$14,000,000	\$14,000,000	\$13,966,500	\$13,999,500
Winning Bids Total	\$14,578,505	\$12,740,714	\$12,980,698	\$13,495,454
Admin. Costs	\$72,893	\$63,704	\$64,903	\$67,477
Net Auction Proceeds	\$14,505,612	\$12,677,010	\$12,915,795	\$13,427,977
<i>Proceeds per \$ of Credit Cert.</i>	\$1.04	\$0.91	\$0.92	\$0.96



Legislative Revenue Office

<https://www.oregonlegislature.gov/lro>

503-986-1266

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