Tax Credit Review: 2021 Session

(Pursuant to 2013 HB 2002)

RESEARCH REPORT #2-21

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Report on Expiring Tax Credits

Introduction

With the creation of the first comprehensive Tax Expenditure Report (TER) in 1996, the state of Oregon has had a single source that identifies existing tax expenditures (e.g. exemptions, deductions, and credits) for the major taxes imposed in Oregon. The TER has been a companion document released with the Governor's Recommended Budget since the 1997-99 biennium.

This report on tax credits is required by ORS 315.051. It contains three sections: an overview of tax expenditures, a summary of the tax credit review process and an analysis of eleven tax credits scheduled to sunset in the upcoming biennium. The tax expenditure overview provides a brief concept discussion of tax expenditures in general and some specific context for the tax credits that are the primary focus of this report. The second section describes the Legislature's review process for expiring tax credits, which was first established in 2011. While the exact process for 2021 is currently unknown, expectations are that it will be of a similar structure. The third and primary section of the report is the analysis of the expiring tax credits to be reviewed during the 2021 legislative session.

Concept of Tax Expenditures

The concept of tax expenditures has been part of the public finance lexicon since 1967 when the U.S. Treasury first created a list of tax preferences and concessions as part of a broader discussion and debate about tax reform. In its simplest form, tax expenditures are provisions of law that represent a departure from a normative tax structure. The concept of "normative" refers to a general set of principles that leads to a collective understanding of the appropriate tax base, in the case here the income tax. Disagreement exists about whether specific provisions in law are tax expenditures or simply not part of the "base" system. A portion of the debate on the topic revolves around the interpretation of "normative." A federal "tax expenditure budget" has been produced since the 1970s and most states now report on tax expenditures in some form.

Kleinbard (2010) has described three kinds of federal tax expenditures contained within the Internal Revenue Code. First, fixed-dollar subsidies are tax expenditures that have a dollar cap per fiscal year. These provisions are legislatively structured to spend no more than a statutory dollar amount. Once that cap is reached, no additional subsidies are granted. The other two types are temporary and permanent uncapped subsidies. These are provisions of tax law that are structured such that if a taxpayer meets the statutory qualifications, they are able to benefit from the subsidy. The amount claimed in a given year is not limited by law. The only difference between the latter two is those that have statutory sunsets and those that don't.

This same taxonomy can also be applied to Oregon tax expenditures with one additional caveat. Oregon-specific tax expenditures are those that are written into the Oregon Revised Statutes and can be categorized in the manner described above. The caveat is that Oregon's income tax is tied to federal tax law, specifically the definition of Federal Taxable Income (FTI). The policy choice of connecting to federal law implicitly adopts many federal income tax expenditures. For example, a federal deduction reduces the FTI for taxpayers. Because the Oregon income tax calculation begins with FTI, the deduction is already included.

The result is that there is a broader perspective when referring to Oregon tax expenditures. They consist of two groups – tax expenditures specified in federal law and those specified in Oregon law. Any analysis of those specified in federal law eventually incorporates the myriad advantages and disadvantages of connecting to federal income tax law.

When tax policy analysis intersects with budget analysis the result often leads to a review of tax expenditures using one of two common approaches. The first is to focus on specific policies embodied within specific tax expenditures. The intricacies of that policy are explored, analyzed, and possible modifications are debated. The second approach is to make proportional changes to all or groups of tax expenditures.

Tax Credit Review Process

In 2009, the Legislature passed, and the Governor signed HB 2067. This bill organized the active credits into three groups according to broad policy goals and placed a sunset date on all but three tax credits.[1] The three groups were scheduled to sunset on January 1 of 2012, 2014, or 2016, so that an organized review could occur during the legislative session just prior to their scheduled sunset. The 2011 Legislature conducted the first such review, which encompassed twenty tax credits.

Building on this work, the Legislature passed, and the Governor signed into law, HB 2002 in 2013 which requires a detailed report on sunsetting tax credits (this document is that required report.) For reference purposes, the table below contains a summary of recent tax legislation focusing on tax credit policy work. Collectively, this legislation is the basis of what some researchers have described as 'framework legislation' for the policy analysis and review of indirect spending (Kleinbard, 2010). These bills have culminated in a process to understand and evaluate part of what has become known as Oregon's tax expenditure budget. Theoretically, such a process could include all tax expenditures, but Oregon is currently and has been primarily focused on state income tax credits.

Session	Bill	Description
2007	HB 3201	Created or modified nine tax credits; paid for by phasing-down the personal exemption tax credit
2009	HB 2067	Organized tax credits into three groups with distinct sunset dates to facilitate their future review
2010	HB 3680	Made significant policy changes to the Business Energy Tax Credit
2011	HB 3672	Tax credit omnibus bill: nine tax credits extended and/or modified; one tax credit divided into three tax credits; one tax credit sunset date accelerated; and nine tax credits allowed to sunset
2013	HB 3367	Tax credit omnibus bill: seven credits extended without modification; two credits extended with modifications; four credits allowed to sunset
2013	HB 2002	Requires biennial report on sunsetting tax credits.
2015	HB 2171	Tax credit omnibus bill: two credits extended without modification; five credits extended with modifications; two credits merged into a single credit; modified one tax credit without changing the sunset date; accelerated the sunset date for one tax credit
	HB 3542	Requires a statement of purpose for each proposed tax credit along with the review of estimated revenue impacts of tax credits

[1] The three credits without a sunset date are the personal exemption credit, the credit for taxes paid to another state, and the claim of right income credit. These tax credits were considered part of the normative tax base.

2016	HB 4072	Moved sunset date for University Venture Development Fund from January 1, 2016 to January 1, 2022
	HB 4110	Increased EITC from 8% to 11% of federal credit for taxpayers with dependent < 3
	SB 1507	Omnibus tax credit bill, technical changes and policy changes to 2 credits
2017	HB 2066	Extends or modifies five tax credits and creates a new tax credit for qualified employer training costs
	SB 162	Technical changes to Working Family Dependent Care Credit
2018	HB 4028	Omnibus tax expenditure measure, changes to four credits
	SB 1528	Created credit for Opportunity Grant contributions
2019	HB 2141	Established procedures and uniform requirements of tax credit transfer and certification
	HB 2164	Extended and/or modified eleven tax credits, established short line railroad credit, and replaced 529 subtraction (education & ABLE) with 529 credit (education & ABLE)
	HB 2847	Expanded list of hospitals, whose medial staff may qualify for rural medical provider credit

In each legislative session the tax credit review process has varied to some degree. In a broad sense, however, the process has consisted of three stages: (1) the interim process; (2) the policy committee process; and (3) the Joint Tax Credit Committee process. The interim process involves updating information on the tax credits that are scheduled for the formal review process during the legislative session. It also includes a review of credits with a later sunset date if they meet criteria for early consideration. This stage ends with the pre-session filing of bills extending the sunset date by six years – a default time period intended as a placeholder. These bills are intended to set the stage for legislative discussions and have no direct policy implications.

The second stage begins with legislative leadership assigning the tax credit bills to relevant policy committees with subsequent referrals to the Joint Committee on Tax Expenditures. There are two such extension bills (House and Senate versions) for each credit that simply extend the sunset date.[2] The intent is that each committee reviews the purpose of each credit and evaluates its effectiveness in achieving that purpose. Sample questions have typically been provided to promote discussion. Possible committee actions include: allowing the credit to sunset by simply taking no action on the bill, extending the sunset date without policy changes, extending the sunset date with other policy changes, or replacing the credit with a more effective policy. All but the first option would result in a recommendation to the Joint Committee on Tax Expenditures. The objective is that each policy committee provides some degree of policy guidance to the Joint Committee for any continuation of desired tax credits.

Upon receiving tax credit bills referred from policy committees, the work of the Joint Committee on Tax Expenditures is intended to mirror the Ways & Means budget process. The "base" spending level may be the amount of spending presented in the Governor's recommended budget, an amount set by legislative leadership, or some combination thereof. One example is that this base could be the estimated credit revenue base – the revenue impact of straight credit extensions – within the overall revenue and budget

[2] Proponents of a given policy may have a version drafted that includes modifications.

situation. Consultation among legislative leadership, the Ways & Means Co-chairs, and the House and Senate Revenue Chairs may result in a tax credit budget for the upcoming biennium.

The Joint Committee evaluates credits based on policy committee input, recommendations, and prioritization, while considering general tax policy criteria. The Committee collectively considers all bills affecting the existing tax credits as well as any new credits proposed during the session. Some may be allowed to sunset as scheduled; some could have their sunset date accelerated; and others could be extended and/or modified. Examples of potential modifications include: separating a single tax credit into multiple tax credits, merging multiple tax credits into a single tax credit, adding some form of means-testing, and sunsetting a tax credit early to raise revenue that can then be redirected to a different program.

Tax Credits for Review in 2019

This is the primary section of the report, containing detailed information on each tax credit scheduled to be reviewed in 2021. In total, there are eleven such tax credits. To provide some context, the table below shows the cost to extend the tax credits for the current and following two biennia. These estimates are for current law, meaning the cost to extend reflects the estimated cost of extending the credit sunset date without otherwise modifying the credit. The cost to extend amount in 2021-23 is roughly half the cost in 2023-25. This is due to the credits sunsetting midway through the 2021-23 biennium.

Estimated Cost of Extending Tax Credits

$ Millions

Tax Expenditure Report Number and Credit name	ORS	Sunset Date	--------Biennium-------- 2021-23	2023-25	2025-27
Scheduled for Review by the 2021 Legislature					
1.404 Employee Training in Eligible Counties	**315.523**	2023	< 50K	< 50K	< 50K
1.407 Child with a Disability	**316.099**	2022	$4.9	$10.2	$10.6
1.408 Rural Medical Providers	**315.613-619**	2022	$1.2	$4.4	$6.1
1.410 Severe Disability	**316.752-771**	2022	$4.8	$9.7	$9.7
1.422 Public University Venture Development Fund	**315.640**	2022	$0.3	$0.5	$0.4
1.425 Working Family Household and Dependent Care	**315.264**	2022	$31.9	$63.8	$63.8
1.426 Contributions to the Office of Child Care	**315.213 (318.031)**	2022	< 50K	< 50K	< 50K
1.427 Individual Development Account Contributions	**315.271**	2022	$6.6	$13.6	$13.9
1.430 Bovine Manure for Biofuel	**315.176**	2022	$3.3	$5.5	$5.8
1.445 Oregon Life and Health IGA Assessments	**734.835**	2022	$0.7	$0.9	$0.5
1.449 Oregon Veterans' Home Physician	**315.624**	2022	< 50K	< 50K	< 50K
SUBTOTAL			**$53.6**	**$108.6**	**$110.8**

The remainder of the report consists of separate reviews for each tax credit. Each review consists of subsections related to the credit's policy purpose, description, policy analysis, similar incentives available in Oregon, and discussion of related credits available in other states. The policy purpose of a credit is generally not stated in statute. The purpose identified in this report is based on documentation from implementing or modifying legislation and related committee discussions. Generally, the purposes are inferred from historical records. When Oregon statute provides a clear statement of the policy intent, such policy purpose is cited in this report. The description provides detail on how the tax credit works under current law. The policy analysis describes academic research on relevant incentives if available, provides some discussion of the credit' history, and an analysis of available data. Often the primary sources of data are certifications and tax returns. The review also includes a summary of similar incentives in Oregon (direct spending program information is generally provided by the Legislative Fiscal Office).

Statute requires this report to provide information on the public policy purpose or goal of each tax credit. The most basic of this information is simply the stated public policy purpose. Also required is information on the expected timeline for achieving that purpose, the best means of measuring its achievement, and whether or not the use of a tax credit is an effective and efficient way to achieve that goal. However, Oregon statute does not generally contain policy purposes or goals for tax credits. Consequently, statute does not generally identify timelines or metrics related to such goals. In the few cases where statute does provide a purpose or a goal, it is included in this report. The more common approach has been to rely on bill documentation and written testimony for the implementing legislation. This information is the basis for the purpose statements included in this report.

Statute requires that this report contain, among other things, an analysis of each credit regarding the extent to which each is an effective and efficient way to achieve the desired policy goals. Ideally, the best analytical approach would be to identify metrics for each desired outcome, measure them over time, and then estimate the degree to which each credit contributes to the success of obtaining those goals. However, a lack of clearly stated purposes presents several challenges to ultimately measuring or estimating their effectiveness. The information provided in this report is intended to be a step toward a more comprehensive analysis. To improve the effectiveness of this report, clarified policy objectives for each credit represents a critical step.

The importance of a clear objective is that it effectively provides direction for the framework of policy analysis. While many of Oregon's tax credits do constitute an incentive to encourage a certain kind of behavior, many tax credits intend to alleviate or provide support for specified individuals. The analytical framework for non-incentive tax credits is fundamentally different from those credits that are incentives. Many of the tax credits have different characteristics that may lend themselves to more, or less, analytical review. This report attempts to describe those frameworks in the discussions on policy analysis and/or credit effectiveness and efficiency.

Rural Medical Providers

ORS 315.613, 315.616 315.619	Year Enacted:	1989	Transferable:	No
	Length:	1-year	Means Tested:	Yes
	Refundable:	No	Carryforward:	None
TER 1.408	Kind of cap:	Taxpayer	Inflation Adjusted:	No

Policy Purpose

Bill documentation for the implementing legislation (1989 SB 438) states that the primary issue discussed was the "[f]light of physicians, physician's assistants and nurse practitioners from areas served by rural hospitals and the difficulty in finding replacements." This language suggests that the ***policy purpose is a combination of the retention and recruitment of certain medical professionals in rural areas.*** One of the major points discussed was how to limit the eligibility of the tax credit to communities that were having or were expected to have problems with the adequate provision of medical care.

Bill documentation describes a "three-pronged attack" to address the problems and shortages of medical care in rural communities. Along with the tax credit, SB 438 implemented a loan repayment program with the State Scholarship Commission for practitioners who agreed to operate a practice in a rural area. The third piece of the policy was financial assistance for rural hospitals by requiring that they receive the same level of Medicaid reimbursement even if they weren't considered remote.

The 2015 Legislature extended the sunset of the credit to 1/1/2022 with certain modifications enacted. The ***cumulative purpose of the modifications is to more efficiently expend (through the tax system) limited funds aimed at retaining specified medical providers in rural areas.*** The 2015 revenue impact statement stated the ***policy purpose of the credit as "to improve access to certain health care providers in rural areas".***[3]

Description

Distance	Credit
10-20 miles	$3,000
20-50 miles	$4,000
50 or more miles	$5,000

Certain medical providers are allowed a non-refundable tax credit equal to either $3,000, $4,000 or $5,000 against their personal income taxes.[4] Eligible providers include physicians, dentists, podiatrists, optometrists, physician assistants, nurse practitioners and certified registered nurse anesthetists. The value of the tax credit depends on a medical provider's distance from a community with a population of 40,000 or more. The credit is also limited to providers with adjusted gross income up to $300,000.[5] There are three exceptions to the limit: physicians who practice as a general surgeon, physicians who specialize in obstetrics, or physicians who specialize in family or general practice and provide obstetrical services. The requirements for eligibility vary by type of provider.

To receive the credit the provider must work a minimum of 20 hours per week, averaged over the month, in a qualifying rural area. They must also be willing to serve a Medicare and medical assistance (Medicaid) base equal to their county's population of such patients up to 20 percent for Medicare and 15 percent for medical assistance patients. For this program, rural is defined as any area at least ten miles from a population center of 40,000 or more. Currently, there are six such population centers: the Portland Metropolitan Statistical Area (MSA), Salem, Eugene/Springfield, Medford, Bend, and Corvallis/Albany. In

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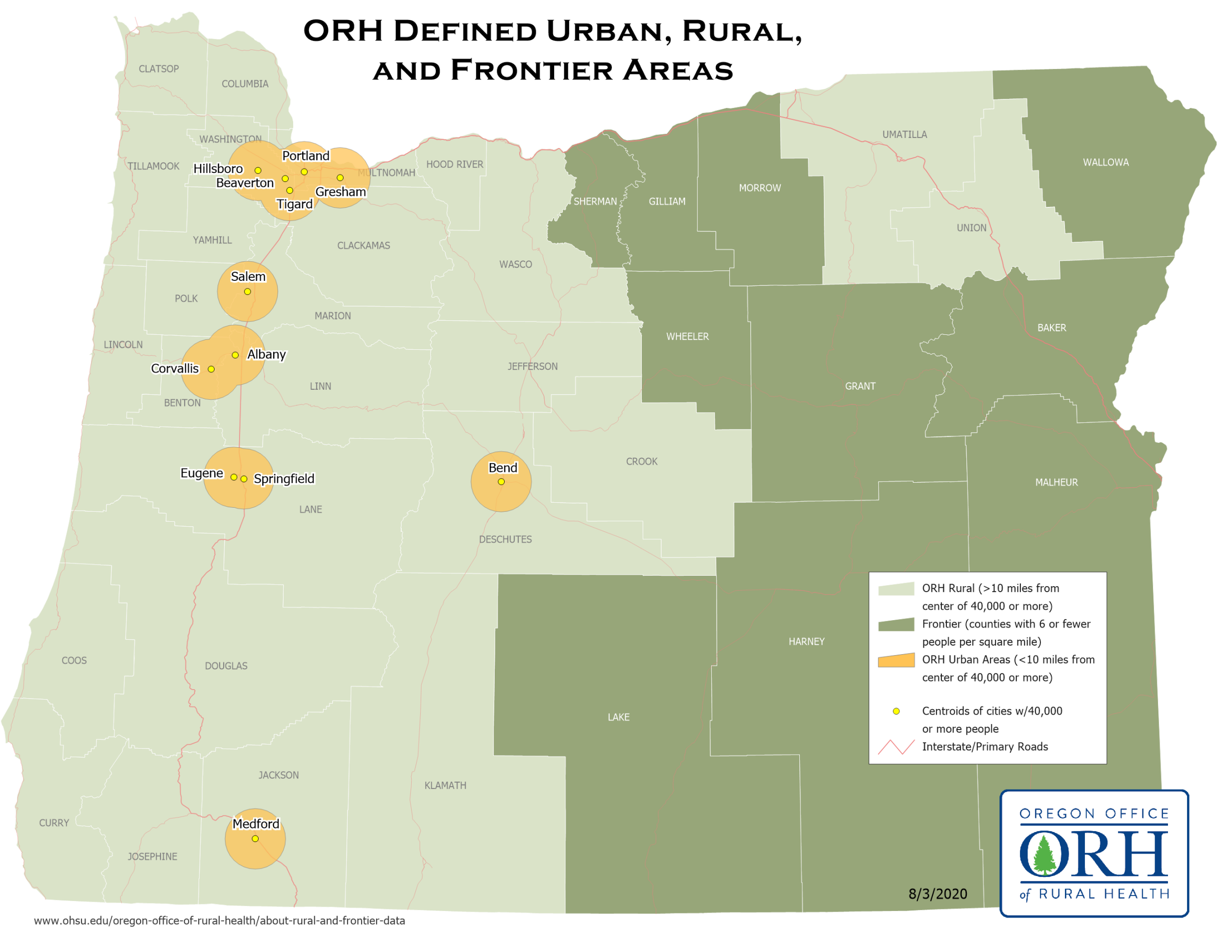
[3] HB 2171-A (2015)
[4] The total credit amount can reach $10,000 if both taxpayers on a joint return qualify.
[5] Adjusted gross income limit of $300,000 is applicable to both single and joint filers.

addition, physicians on staff at a hospital in an MSA are not eligible, with the exception of those working in Florence in Lane County and Dallas in Polk County. A qualifying taxpayer may claim both this credit and the Oregon Veterans' Home Physician credit.

Despite the current sunset of January 1, 2022, there is a grandfather clause allowing taxpayers that meet the eligibility requirements for tax year 2021 to continue using the credit for any tax year through 2031. Additionally, there is a ten-year lifetime limit on using the credit though the ten-year limit only applies to tax years beginning on or after 2018.[6]

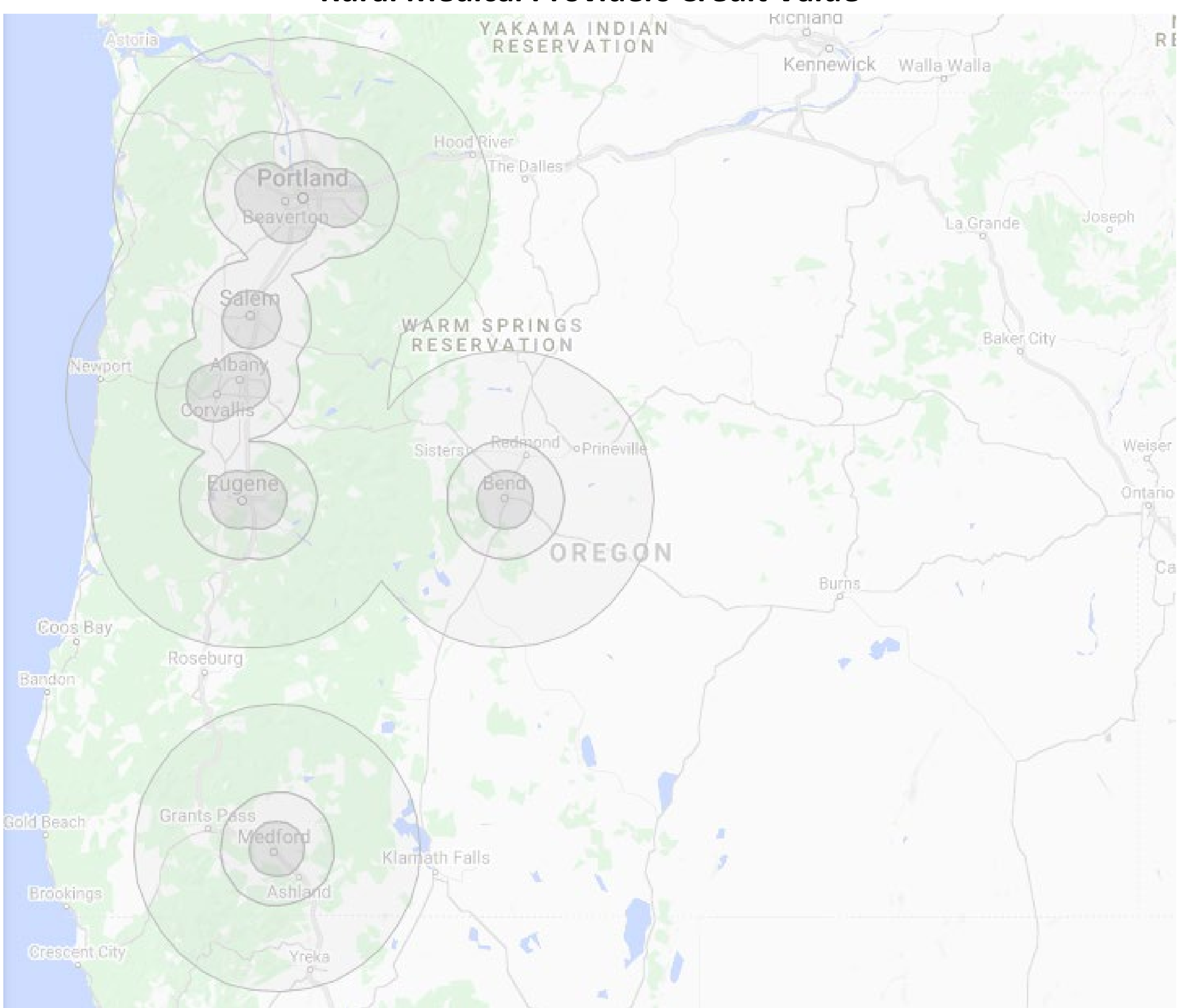
Below is a map from the Office of Rural Health (ORH) that shows the geographic areas covered by the tax credit. The areas that are considered urban fall within 10 miles of the Portland MSA, Salem, Corvallis/Albany, Eugene/Springfield, Bend, and Medford. All other parts of the state are places where medical professionals are eligible for the tax credit.



[6] For example, a taxpayer who had used the credit for 12 years prior to tax year 2018 would be eligible to use the credit for ten years beginning with 2018.

The following map is also from the Office of Rural Health and displays through a series of concentric circles the areas of the state where the credit is available and at what amount. The innermost circle displays the urban areas of the state where the credit is unavailable. The first annulus displays areas where the credit is equal to $3,000. The credit in areas within the second annulus is equal to $4,000 and the credit is equal to $5,000 in areas outside all the concentric circles.

Rural Medical Providers Credit Value

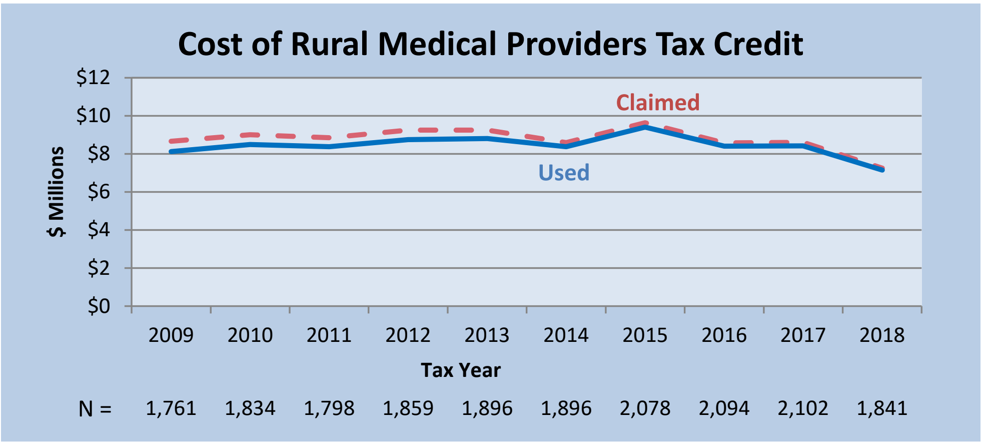


(Office of Rural Health, 2020)

Policy Analysis

Two recent policy changes influenced the amount of the credit being used annually. Beginning with tax year 2016, the amount of the credit was modified to be equal to be $3,000 to $5,000 depending on distance from a major population center. This allowed for a total reduction in amount of credit claimed while number of taxpayers claiming the credit continued to increase. Applicable beginning in tax year 2018 and with some exceptions (see credit description prior), taxpayers with an adjusted gross income in excess of $300,000 no longer qualify for the credit. This change reduced the overall number of taxpayers claiming the credit.

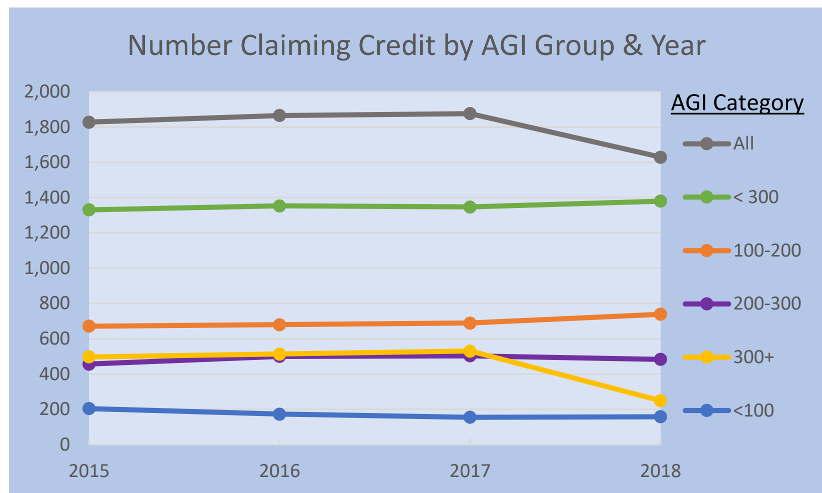
The chart below shows credit claimed and used amount since 2009. The red dashed line displays the credit amount claimed on tax returns whereas the blue line displays the amount used to actually reduce tax liability. The amount used averaged about 96 percent of the amount claimed. Between 2009 and 2018, the amount claimed on tax returns declined by 16.4 percent, from $8.7 million to $7.2 million. Over the same period the number of taxpayers claiming the credit grew by 4.5 percent, from 1,761 to 1,841. For years 2016 through 2018, about 150 tax returns each year were joint returns where both taxpayers were eligible for the tax credit.



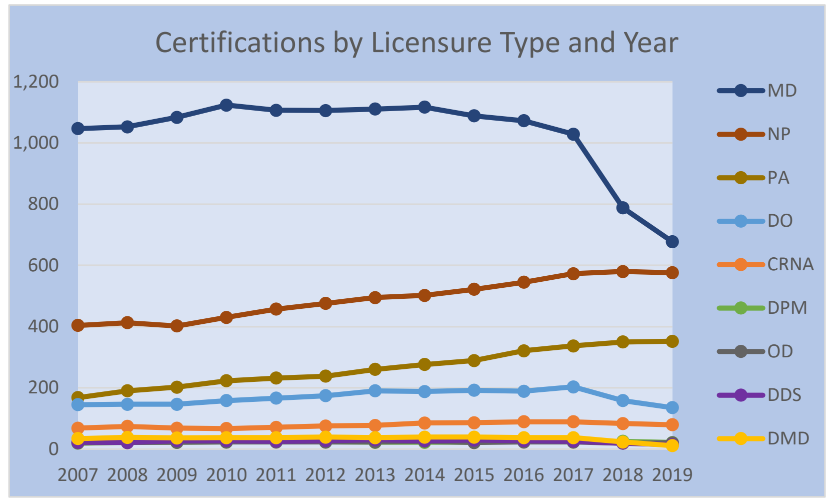
As previously described in the policy purpose section, the purpose of recent policy modifications to the credit was to more efficiently expend limited funds aimed at retaining specified medical providers in rural areas. To that end, an exploration of recent tax credit return and certification data is warranted. The intent is to examine whether recent policy changes affected the retaining of specified medical providers in rural areas.

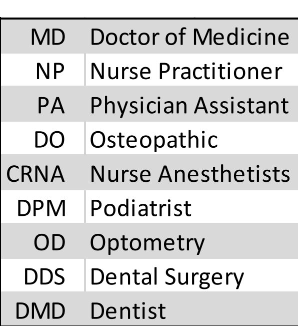
As is often the case, estimating the impacts of individual policies is challenging. There are several factors that influence the decision-making process of medical professionals regarding where to practice, including wage level, quality of life, and access to certain amenities. In addition, this tax credit is not the only incentive currently in place designed to improve access to health care for rural Oregonians. The analytical challenge is to untangle each of these effects. Given current data restrictions, the goal here is to examine potential identifiable impacts resulting from recent policy changes made to the credit (change to credit amount and AGI limit).

The chart to the right displays the number of Oregon resident taxpayers claiming the credit categorized by taxpayer's adjusted gross income (AGI). As displayed, the total number of taxpayers claiming the credit declined in 2018 aligning with the AGI qualification limit that became effective the same year. As displayed, the decline was driven by those taxpayers with AGI greater than $300,000 being made ineligible for the credit beginning in 2018.[7] For taxpayers with AGI less than $300,000 the number claiming the credit increased slightly from 1,331 in 2015 to 1,380 in 2018. In 2017, about 530 taxpayers claiming the credit had AGI greater than $300,000. In 2018, about 250 taxpayers with an AGI greater than $300,000 claimed the credit, a reduction of about 53% from 2017.



Tax credit certification data provided by the Office of Rural Health displays the trends in licensures being certified for the tax credit. The chart below displays the number of respective practitioners certified for the credit each year for years 2007-2019.[8] As shown, the top four provider types certified for the credit are: Doctor of Medicine (MD), Nurse Practitioner (NP), Physician Assistant (PA) and Doctor of Osteopathic Medicine (DO). The AGI limitation is clearly visible beginning in 2018 for both the MD and DO provider types. The following two charts examine the recent change in certified provider type.

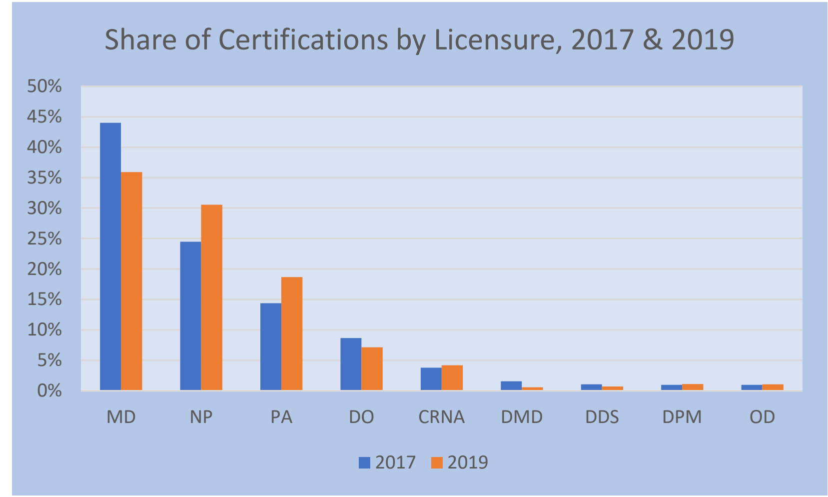




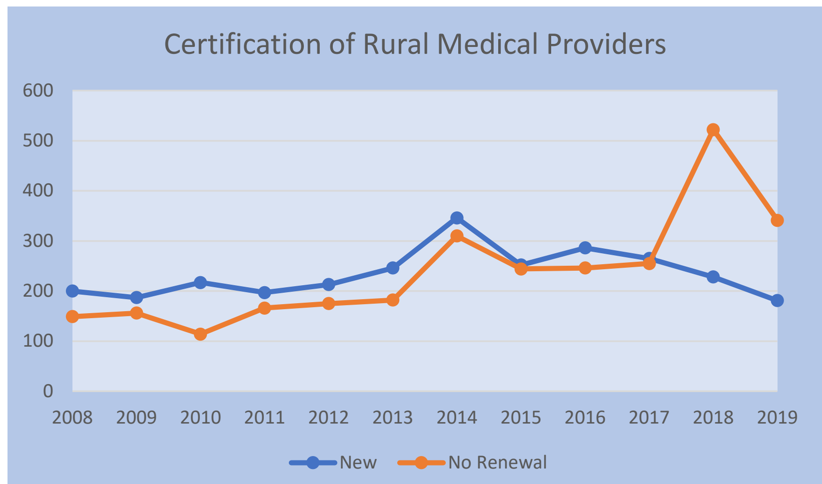
MD	Doctor of Medicine
NP	Nurse Practitioner
PA	Physician Assistant
DO	Osteopathic
CRNA	Nurse Anesthetists
DPM	Podiatrist
OD	Optometry
DDS	Dental Surgery
DMD	Dentist

[7] As previously mentioned, the $300K AGI limitation does not apply to a physician who practices as a general surgeon, specializes in obstetrics or specializes in family or general practice and provides obstetrical services.
[8] 2018 represents the most recent year of available tax return data, whereas certification data is available up to 2019.

The chart to the right displays the change in overall share of certifications by provider type. As shown, the share of certifications has shifted following the 2018 initiation of the $300K AGI limitation. Compared with 2017, the overall share of MDs and DOs declined whereas the share of NPs, PAs and CRNAs all increased.



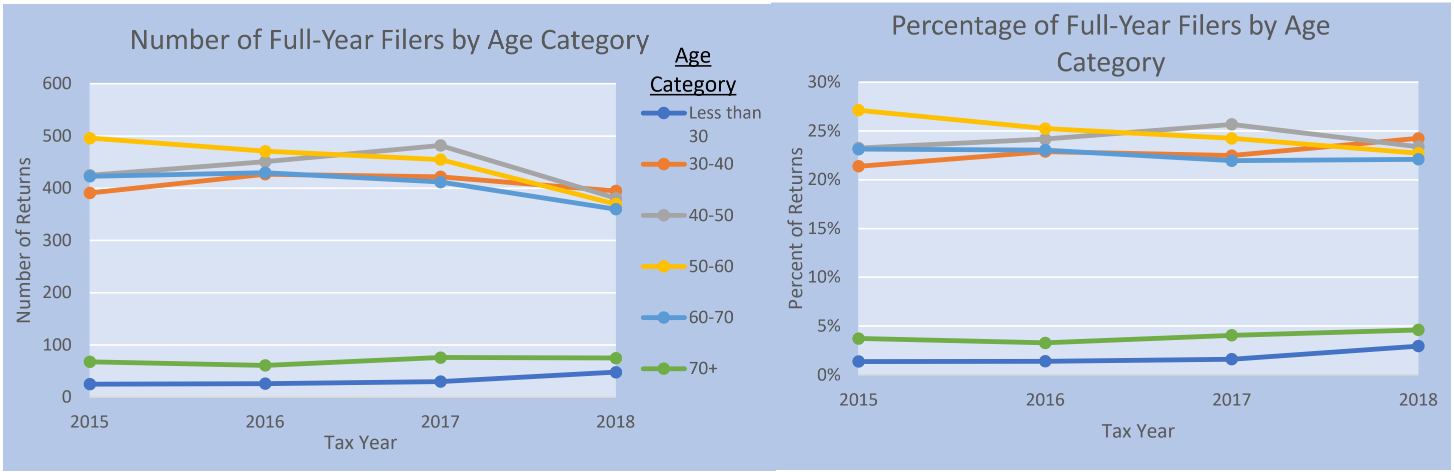
The chart below displays the number of new providers being certified for the credit each year along with the number of providers not renewing their credit certification (the "churn" in the credit). A new provider certification refers to a provider first being certified for the tax credit whereas the providers labeled "not renewing" is a computed number based on the number of providers certified the previous year (both new and renewing providers) minus the number of providers renewing in the current year. As displayed, for years 2008-2016 the number of new provider certifications slightly outpaced the number of no renewals causing an overall increase in the number of certified providers each year. Beginning in 2018, the number of non-renewals increased reflective of the AGI limitation first effective in 2018. As the $300,000 AGI limitation is not indexed to inflation, the limitation is expected to affect more providers each year that would otherwise qualify for the credit.



An examination of tax return data provides a way in which to examine potential change in age of tax credit claimants. The charts on the following page display the age of the return filer[9] at time of return filing by both number of returns and percentage of overall returns filed. Again, the overall reduction that occurred in 2018 due to the AGI limitation is visible in the left chart. As displayed, most age groups saw a decline in overall claims for the credit with the exception of the under 30 category where an increase occurred (70+ was largely flat). Looking at the overall share (right chart) it can be seen that the change in credit claimants decreased in the 50-60 group while increasing in the less than 30 and 30-40 age groups. It is perhaps

[9] For joint returns, this is the individual's whose name is reported first on the return. As such, the age reported here may not match the provider's age as it could be the provider's spouse.

unsurprising that the AGI limit would tend to affect younger taxpayers less than those in their prime working age.



Recent changes to credit amount and AGI qualification limit

The recent changes to the tax credit provide an opportunity to examine the credit's influence on rural medical provider behavior. Of course, a medical provider's decision to begin or continue practicing in a rural area can be influenced by multiple factors and incentive programs other than the tax credit. As changes to the credit are relatively recent, existing data can only begin to look for potential behavioral changes in the retention and recruitment of providers. Having said that, an examination of the number of providers in rural areas following the recent credit changes can provide some insight into the credit's potential impact on retaining and/or recruiting providers to rural areas. For context, a brief examination of a survey of rural medical providers receiving the credit prefaces the examination of the number of rural providers.

In 2013, the Office of Rural Health surveyed providers receiving the tax credit.[10] About 70% of respondents were licensed MDs and about two-thirds of providers surveyed were not employed by a hospital. About 85% of respondents identified the tax credit as "important" or "very important" in the provider's initial decision to practice in rural Oregon whereas about 95% identified the credit as "important" or "very important" in their decision to remain in practice in rural Oregon. When asked what impact capping the credit at $250,000 annually would have, nearly 11% of respondents stated they "would leave my community as soon as possible", 30% would "begin looking for other opportunities" and 33% would "consider leaving". About 25% stated capping the credit would have little impact or no impact on their decision to continue practicing in their rural community. The survey results should be viewed in consideration of the survey's reliance on self-reporting and associated potential response bias. Nonetheless, the survey results indicate a potential noticeable impact on rural providers could occur if the credit (as it existed in 2013 at time of the survey) was modified.

The first recent change to the credit was the modification to credit amount. Beginning with tax year (TY) 2016, the credit amount went from a flat value of $5,000 to a value of $3,000, $4,000 or $5,000. The average credit amount claimed in TY 2016 was about 87% of the TY 2015 average amount indicating that

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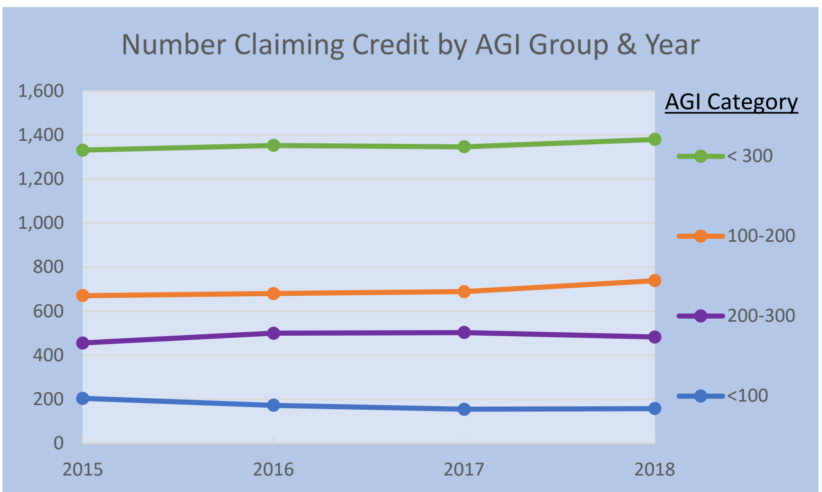
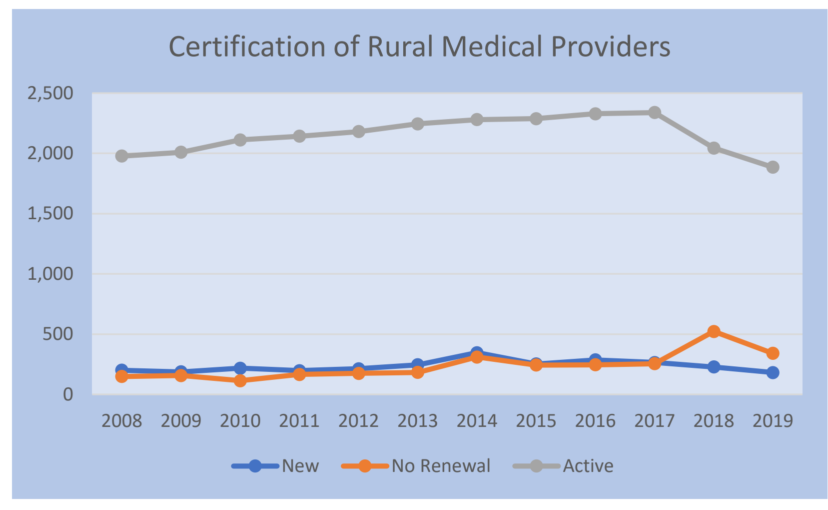
[10] Survey results provided by Office of Rural Health (Office of Rural Health, 2013).

credit recipients were affected by the change in credit value.[11] The chart below displays the number of taxpayers claiming the credit in each year where the taxpayer had AGI less than $300,000.[12] No clear discernable reduction appears to have occurred following changes in credit amount. Unfortunately, data availability does not allow for an in-depth comparison between taxpayers qualifying for the full $5,000 and those qualifying for a lesser amount. Nonetheless, early tax return information does not indicate mass exodus by providers receiving the lesser credit amount. Examination of corresponding credit certification data (displayed graphically two pages back) again does not indicate a clear change in the number of new certificates or those choosing to not renew their credit certification in years 2016 and 2017 (years prior to AGI limit change).



Beginning with tax year 2018, credit qualification was limited to providers with an AGI less than or equal to $300,000.[13] This change in qualification is clearly identifiable in the credit return (see charts on previous pages) and certification data. The chart to the right displays by year the number of new credit certifications, no renewals (those previously certified that did not renew their certification) and active certifications (sum of new and those renewing). The decline in the number of active providers certified for the credit is clearly visible beginning in 2018. This corresponds with an increased number of providers not renewing and a decrease in the number of new providers. This change in credit participation is to be expected as the AGI limitation decreases the pool of rural providers that may qualify for the credit. Credit return and certification data however do not provide insight into whether retention/recruitment of providers to rural areas was affected by recent changes to the credit. To provide insight into the question of retention/recruitment, other sources of data are required.



[11] If credit recipients were evenly distributed by distance from population center, average credit amount claimed in TY 2016 would have been expected to be about 80% of TY 2015.
[12] Credit availability became limited for taxpayers with AGI in excess of $300,000 beginning in tax year 2018.
[13] Not all providers are subject to AGI limitation, see description section for details.

Oregon's Health Care Workforce Reporting Program (WRP) administered by the Oregon Health Authority's (OHA) Office of Health Analytics provides an informal way of examining whether a change in the number of rural medical providers occurred during the period in which changes to the credit became effective.[14] The WRP data tracks the health license renewal of various health licenses. OHA's website cautions against statewide license comparisons between years though data from specific occupations may be compared, with caution. Examination of WRP data performed for this report is based on data downloaded from OHA website in fall of 2020. Analysis of occupation data was done only for occupations in which data was available in all three years examined. This examination of underlying data is not definitive though it does provide the basis for an informal analysis. Data is available at the county level which allows for an examination by county but to bifurcate data by urban and rural, an entire county must be assigned as either urban or rural.[15]

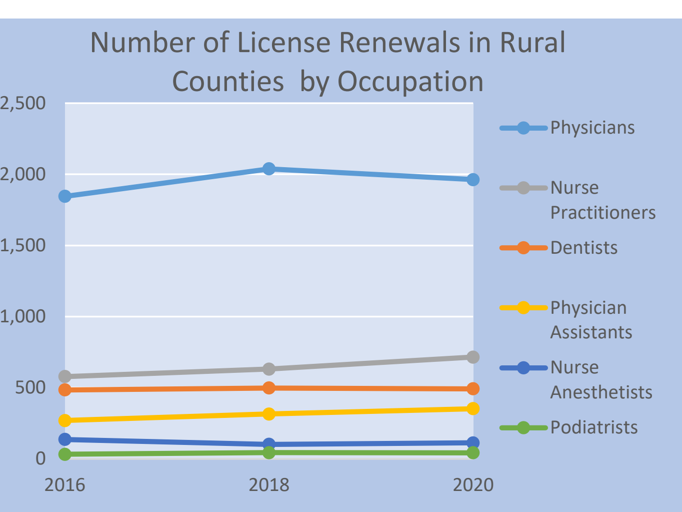
The two tables below display the number of licenses renewed by occupation and year, for counties identified as rural and urban. The chart below displays number of license renewals in rural counties only over years 2016, 2018 and 2020. In both rural and urban counties, the number of licenses renewed increased in each year reported. While the number of physicians in rural counties increased between 2016 and 2020, the number from 2018 to 2020 decreased. Upon closer examination, the decrease in the

Number Renewing License by Occupation - Rural

Occupation	Number Renewing by Year		
	2016	2018	2020
Nurse Anesthetists	137	102	113
Dentists	485	498	493
Nurse Practitioners	579	631	716
Physician Assistants	270	316	353
Physicians	1,845	2,039	1,963
Podiatrists	32	44	43
Total	***3,348***	***3,630***	***3,681***

Number Renewing License by Occupation - Urban

Occupation	Number Renewing by Year		
	2016	2018	2020
Nurse Anesthetists	389	340	353
Dentists	2,434	2,465	2,540
Nurse Practitioners	2,471	2,588	3,025
Physician Assistants	1,226	1,538	1,780
Physicians	10,736	11,974	12,438
Podiatrists	137	145	153
Total	***17,393***	***19,050***	***20,289***



(Oregon Health Authority, 2020)

number of renewed licensed physicians was relatively widespread in counties identified as rural. By contrast, the increase between 2018 and 2020 in urban counties was also widespread amongst the urban counties. This examination is an initial look at the data following recent tax changes. Other factors are undoubtedly affecting rural providers and refinement of data analysis is an ongoing effort.

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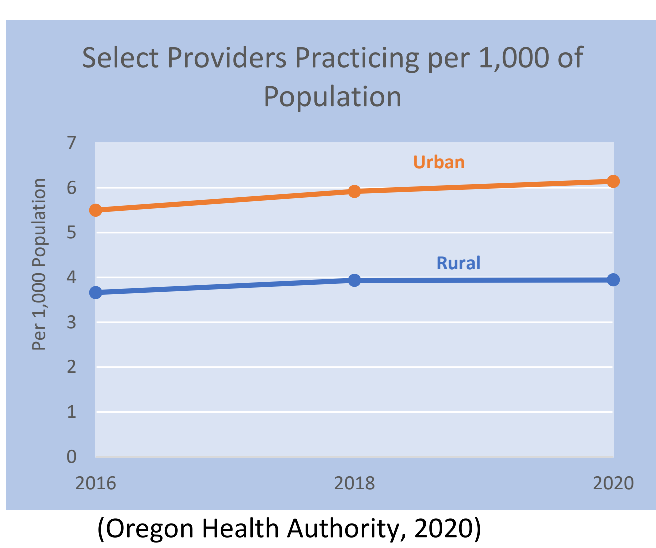
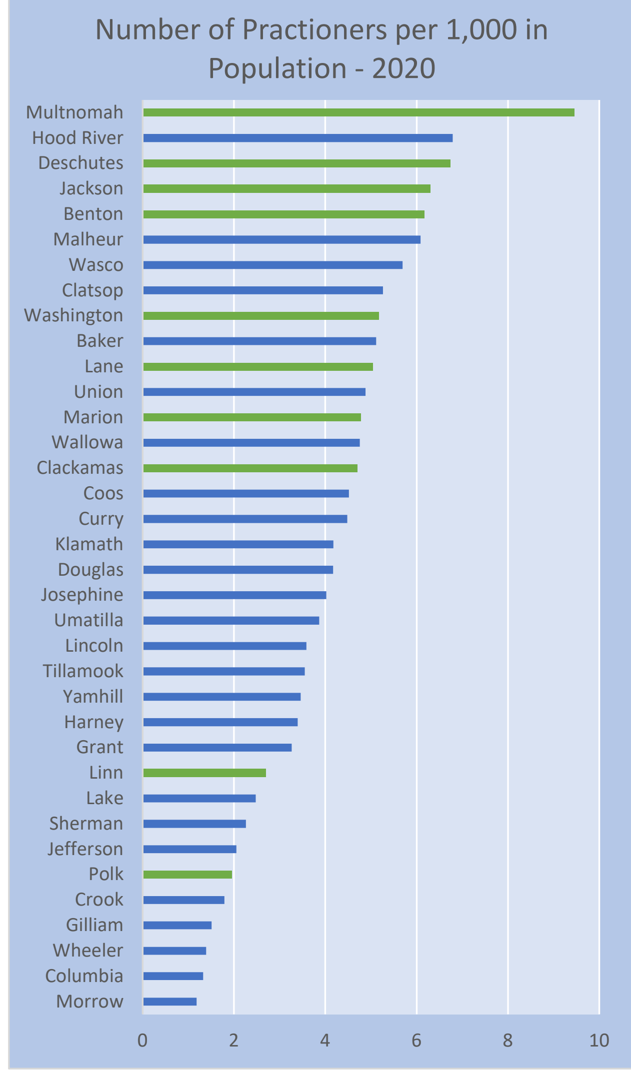
[14] See https://www.oregon.gov/oha/hpa/analytics/Pages/Health-Care-Workforce-Reporting.aspx

[15] The following ten counties were labeled as urban reflective of county classification for credit purposes: Benton, Clackamas, Deschutes, Jackson, Lane, Linn, Marion, Multnomah, Polk and Washington.

Examining the license renewals on a per capita basis provides another way in which to view recent changes and examine differences between counties and the urban/rural distinction. The left chart below displays the number of providers per 1,000 in county population delineated between urban and rural counties. As displayed, both urban and rural counties experienced increases on a per capita basis since 2016 though urban counties increased at a faster pace than rural counties. The chart to the right displays the number of providers per 1,000 population by county in 2020 (urban counties identified in green). As displayed, individual counties vary in the number of providers per capita. When focusing only on the physician category, per capita numbers followed the trend in overall counts where physicians per 1,000 of population increased in rural counties from 2.020 in 2016 to 2.211 in 2018. In 2020, physicians per 1,000 of population decreased to 2.104. This still represents a net increase from 2016 but is a metric to continue tracking as the 2020 decline corresponded with the AGI credit limit that became effective with the 2018 tax year.



(Oregon Health Authority, 2020)



General analysis and further considerations

The policy discussion at the time the tax credit was adopted focused on the loss of certain medical professionals from rural areas. The tax credit was part of a larger policy goal of mitigating that loss, which also included a direct subsidy (i.e. loan repayment) and an attempt to increase the Medicaid income (via reimbursement) for rural hospitals. Given such a focused goal, examining the number of such professionals before and after the implementation of the policies would be a next step in evaluating the policy's degree of success or failure. As the credit has been in place for over thirty years, such before and after analysis is no longer relevant. Continued examination of medical providers practicing in rural areas continues to provide a way in which to measure availability of such services to rural residents.

In an attempt to evaluate the optimal structure of the tax credit, it's important to acknowledge that this is an incentive where the beneficiaries of the tax credit (the medical providers) are distinct from the beneficiaries of the health policy (the rural Oregonians seeking health care services). The tax credit is a de facto increase in the wages paid to its recipients, thereby increasing the returns to labor with the hope of increasing the supply of labor for medical services. If the intent of the policy is more (or better) medical services provided to rural Oregonians, then measuring and evaluating that additional health care would be at the core of the policy analysis. Certainly, the cost of that additional health care would be of interest to stakeholders. And the analysis could include all aspects of those additional costs. For the sake of clarity, it's important to keep such distinctions clear.

Proponents of the credit may contend that allowing the credit to sunset would make it marginally more difficult to retain and/or attract qualified medical professionals to rural areas. If providers were practicing in an area as a direct result of the credit, then it is likely that some number of them will cease to do so if the credit were to sunset. However, this effect may be moderated by a certain level of inertia that comes from being invested in the life of a community, as a result of a brick and mortar business location or a residence. In addition, any exit by professionals is likely to happen gradually over time and be difficult to quantify outside of other influencing factors.

One option to better understand the impact of the tax credit would be to examine the ability of medical systems to retain and attract medical providers. For example, examining length of time to fill open positions could indicate whether difficulty exists in ability to attract qualified providers to rural areas. Survey work could also aid in the understanding of why providers chose to locate in a rural area or exit surveys could seek to understand why providers left rural areas to continue practicing in an urban setting. Surveys of officials who are involved with the recruitment of medical professionals to rural areas, and who may collect information regarding decisions about where to practice and/or reside could also be helpful.

Other States

Policymakers and other stakeholders are often interested in how other states address these policy issues. Several other states were identified as currently having a tax credit for rural medical providers (some are limited only to physicians). The states are: Alabama, Georgia, Louisiana, Maine (limited to 10 providers), and New Mexico. When analyzed collectively, the information below summarizes the policy options used by these states in designing their specific credits. Other states have also proposed larger one-time credits available to medical providers establishing a new practice in rural areas.

Key characteristics of other states

- Amount of credit generally ranges from $3,000 to $5,000
- Non-refundable or refundable
- Carryforward or carryback allowed/disallowed
- Some variance by specialty, with larger credit for certain practitioners
- Contingent upon number of hours worked
- Includes limit on the number of years eligible to claim
- Requires connection to a small or rural hospital
- Varying definitions of rural
    - Community, county, or area
    - Number of people or people per square mile
    - Distance to a hospital or city of a certain size

Similar Incentives Available in Oregon

The Legislative Fiscal Office identified two direct spending programs that shared some level of policy relationship to the credit. The two spending programs along with each program's 2019-21 legislatively adopted budget amount is detailed in the following table.

	2019-21 Legislatively Adopted Budget ($M)	
Direct Spending Program	***General Fund***	***Other Funds***
Healthcare Provider Incentive Fund	$17.7	$10.0
Area Health Education Centers	$4.5	

The Healthcare Provider Incentive Fund supports access to care for rural and other underserved communities by offering various incentives to both students and health care providers who commit to serving patients in underserved areas of the state. These incentives include the following: student loan repayment, primary care loan forgiveness, subsidies for rural medical practitioner insurance, and scholarships. The Oregon Health Authority administers the program in partnership with the Oregon Office of Rural Health.

Area Health Education Centers work to improve healthcare for rural and underserved populations by educating current and potential rural health care students, and the Office of Rural Health coordinates the statewide effort to provide healthcare in rural Oregon. The Office of Rural Health works with rural practice sites to recruit and retain providers and manages provider incentive programs.

Administrative Costs

The administrative and compliance costs of this credit are born by the ORH, the DOR, and taxpayers. There is an annual $45 fee that claimants must pay the ORH, which provides the office with roughly $175,000 per biennium for its budget. The cost to the taxpayer is $45 per year ($90 if a joint return with two eligible taxpayers) plus the marginal cost of maintaining the certification paperwork in case of a tax audit. The cost to the DOR appears to be minimal. The largest share of the cost is likely born by ORH because they are required to process tax credit applications each year.

Oregon Veterans' Home Physician

ORS 315.624	Year Enacted:	2007	Transferable:	No
	Length:	1	Means Tested:	No
	Refundable:	No	Carryfoward:	None
TER 1.449	Kind of cap:	Credit Amount	Inflation Adjusted:	No

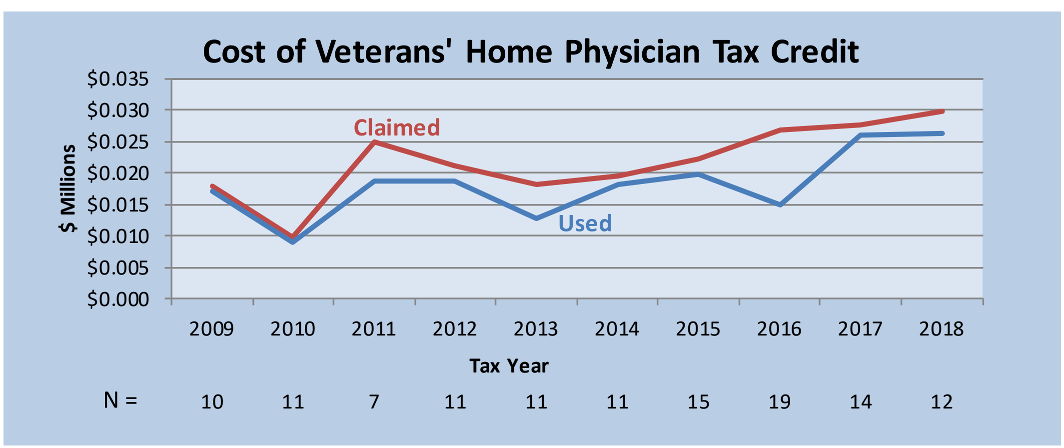
Policy Purpose

Testimony for the 2007 implementing legislation (HB 3201) suggests that the ***policy purpose of the tax credit is to increase the number of health care professionals providing long-term care to Oregon veterans, thereby increasing the number of veterans receiving such care***. The credit effectively increases the after-tax take-home pay for physicians providing the qualifying care. This may entice some physicians to provide these services who otherwise would not.

Description

Physicians who provide medical care to residents of an Oregon Veterans' Home are allowed a credit against personal income taxes. The credit is $1,000 for every eight residents to whom the physician provides care, up to $5,000. To qualify for the credit, a physician cannot miss more than five percent of scheduled visits with residents as verified by a letter from the Oregon Veterans' Home. The letter must be submitted with the corresponding tax return. A qualifying taxpayer may claim both this credit and the rural medical practitioner tax credit.

The chart below shows that the cost of this credit has varied between $10,000 and $30,000 per year between 2009 and 2018. On average, use of this tax credit has equaled about 85 percent of amount claimed meaning some taxpayers are not receiving the full available credit benefit. A second Veterans' Home opened in 2014 in Lebanon causing a slight uptick in credit use. On average, about 15 taxpayers per year have claimed the credit since the opening of the second Veterans' Home.



Policy Analysis

Given the policy discussions at the time this tax credit was created, the key issue is whether the tax credit increases the number of medical providers offering their services to patients in an Oregon Veterans' Home. Communication with The Dalles Oregon Veterans' Home described difficulty in attracting

physicians to follow patients of the home, though the greater community also has a shortage of physicians (Maitland, 2020).

In 1995 the Legislature authorized the creation of two long-term care facilities for Oregon veterans. The first home opened in The Dalles in 1997. The Home can care for as many as 151 residents who need long-term care in a care facility that provides skilled nursing, Alzheimer's and dementia-related care, and inpatient and outpatient rehabilitative care to veterans, their spouses and parents who have lost a child to war-time service .

A second home (OVH-Lebanon) opened in Lebanon in 2014 that can house up to 154 residents. Per OVH-Lebanon's website the Home is...

> *Organized around the idea of an intentional community or neighborhood, this new veterans' home offers residents a way to maximize normal living environments and routines, provides autonomy, a sense of community, and quality of life. The campus consists of four neighborhoods, up to three houses per neighborhood, and each house accommodates up to 14 eligible residents* (Oregon Veterans' Home Lebanon, 2020).

Legislation in 2011 enabled a third home to be built in Roseburg though the facility has yet to break ground due to funding issues.

No other state is known to offer a similar tax credit.

Similar Incentives Available in Oregon

The table below details the direct funding legislatively appropriated to the Oregon Veterans' Homes for the 2019-21 biennium. Home operations are funded by Other Funds, consisting primarily of resident-related income, including federal VA payments, Medicare, Medicaid, insurance, and private payments. Other Funds revenues from the sale of veteran's license plates and donations from the charitable checkoff income tax program also support the Veterans' Homes. The Oregon Department of Veteran Affairs received federal Coronavirus Aid, Relief and Economic Security (CARES) Act Provider Relief Fund general and targeted distributions in 2019-21 for Oregon Veterans' Homes healthcare-related expenses and lost revenues attributable to COVID-19. General Fund is appropriated for debt service on general obligation bonds issued in 2019 for capital improvements to the Homes.

	2019-21 Legislatively Adopted Budget ($M)		
Direct Spending Program	***General Fund***	***Other Funds***	***Federal Funds***
Oregon Veterans' Home	$0.4	$87.1	$1.7

Other Issues

The administrative costs of this tax credit are born by the DOR, the Oregon Veterans' Home (tracking services) and medical providers. The marginal cost to DOR is likely to be minimal and the cost to taxpayers pertains to maintaining tax records in the event they are subject to an audit.

Working Family Household and Dependent Care

ORS 315.264	Year Enacted:	2015	Transferable:	No
	Length:	1	Means Tested:	Yes
	Refundable:	Yes	Carryforward:	No
TER 1.425	Kind of cap:	Taxpayer	Inflation Adjusted:	Partially

Policy Purpose

The Working Family Household and Dependent Care (WFHDC) credit was created in 2015 via the combining of two credits that were reviewed by the 2015 Legislature. The House Committee on Housing and Human Services (HHS) led the credit review. The policy decision of the committee was to take no action regarding the sunset extensions for the Child and Dependent Care and Working Family Child Care credits. Rather, the committee chose to create the WFHDC credit which incorporated many underlying policies of the two credits allowed to sunset. According to testimony provided by Representative Keny-Guyer,[16] the ***policy purpose*** of the WFHDC credit is:

> ***To enable low-income working families to care for young children and disabled dependents by offsetting care costs so that they may be gainfully employed or attending school full-time. The desired effect...is to provide additional tools to help these families climb out of poverty.*** *(Keny-Guyer, 2015)*

The stated policy purpose and the structure of the credit are designed to adjust the credit's monetary benefit to respective taxpayers depending on the taxpayer's income relative to federal poverty level and age of youngest qualifying individual associated with the taxpayer. During committee meetings discussing legislation enacting the credit, intent of the credit and/or desired outcomes resulting from the credit were discussed. Topics discussed included designing a policy that encourages, does not discourage, or enables people to return and/or enter the workforce, especially when accounting for government transfer payments and potential barriers to households. From a perspective of providing additional tools to help families climb out of poverty, it is helpful to view the credit as it exists and interacts with other transfer payments and tax credits.

In HHS committee discussions, multiple policy rationales were presented in support of combining the two sunsetting tax credits into a single tax credit. Rationales included: simplifying the process for many taxpayers that qualify for both credits, extending more benefit to lower income taxpayers through a single refundable credit,[17] and that directing the benefits of a single credit can be easier than directing two.

Description

The WFHDC credit is a refundable personal income tax credit available to low and middle income households with employment related dependent care expenses. Credit amount is determined by applying a credit percentage multiplied by the amount of qualified employment related expenses.

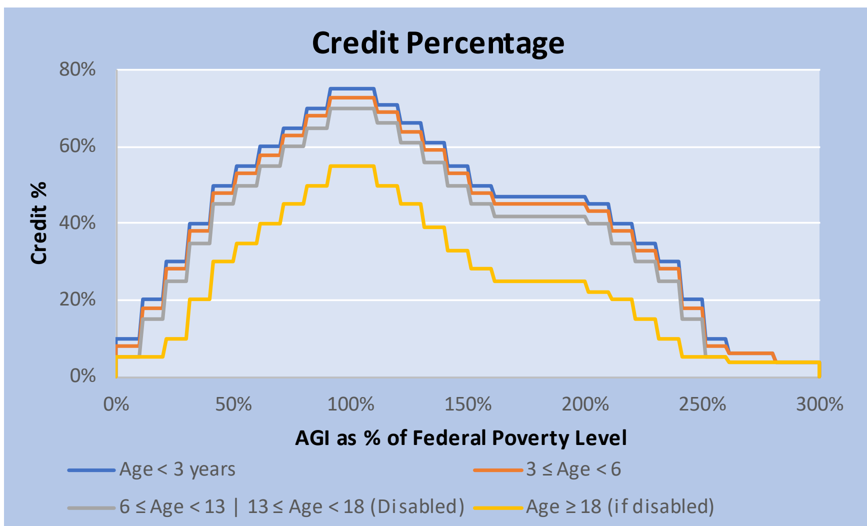
$$\boldsymbol{Credit} = \boldsymbol{Credit}\,\% * \boldsymbol{Qualified\ Expenses\ of\ Care\ for\ a\ Qualifying\ Individual}$$

[16] In 2015, Rep. Keny-Guyer was chair of the House Committee on Human Services & Housing and submitted to the Joint Committee on Tax Credits testimony responding to various tax credit policy related questions.

[17] The Child and Dependent Care credit was not refundable though a 5-year carryforward was available, whereas the Working Family Child Care credit was refundable.

The credit percentage is based on a taxpayer's adjusted gross income (AGI) as a percentage of federal poverty level (FPL) and the age of the youngest qualifying dependent individual. Once a taxpayer's AGI as a percentage of FPL equals more than 300%, the taxpayer no longer qualifies for the credit.

FPL is determined by household size and adjusted to inflation. Respective limits for tax year 2020 qualification are displayed in the table below. The chart below displays the ***credit percentages*** by respective age of youngest qualifying individual. As displayed, credit percentage increases as AGI as percent of FPL reaches 100%, then the credit percentage plateaus, followed by a decreasing period, secondary plateau, and finally decreased until credit is fully phased-out when AGI as a percentage of FPL becomes greater than 300%.



TY 2020 AGI Limits	
Household Size	**AGI at 300% of FPL**
2	$51,720
3	$65,160
4	$78,600
5	$92,040
6	$105,480
7	$118,920
8 or more	$132,360

Qualified expenses are expenses paid by the taxpayer for household services and/or care of a qualifying individual that allow the taxpayer to work, seek work, or attend school on a full-time or part-time basis (part-time only applicable to an unmarried taxpayer).[18] Qualified expenses include childcare expenses and household services such as a cook, babysitter or housekeeper. Qualified expenses are limited to the least of:

- $12,000 for 1 qualifying individual or $24,000 for 2 or more (reduced for any amount excluded from income via an employer dependent care assistance program)
- Earned income taxable by Oregon
- Lesser amount of earned income taxable by Oregon earned by each spouse.

A ***qualifying individual*** is defined in three ways:

1) A child under the age of 13 claimed as a dependent by the taxpayer
2) A disabled spouse who isn't physically or mentally able to care for themself and lived with tax filer for more than half the year

[18] Care includes the cost of services for the qualifying individual's well-being and protection. It doesn't include the cost of food, lodging, education, clothing, or entertainment. (Oregon Department of Revenue, 2019)

3) Any disabled person who isn't physically or mentally able to care for themself and lived with the taxpayer for more than half the year.

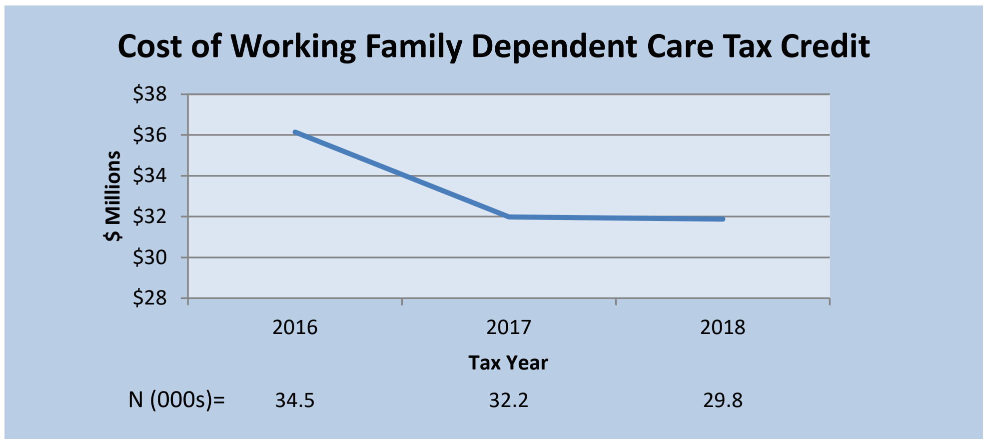
For taxpayers filing jointly, if either taxpayer is enrolled as a full-time student then an income amount is imputed for the student equal to $250 per month or $500 per month (if two of more qualifying individuals are cared for). As qualified expenses are limited to the least of either spouse's earned income, the imputed income allows taxpayers to receive credit benefit in instances where a spouse is a full-time student with little to no earned income (the imputed income is treated as an earned income floor for credit calculation purposes). Non-married taxpayers who attend school full or part-time may qualify for the credit, but no imputed income is included as earned income.

Policy Analysis

The provision of child care and care for individuals with disabilities is a sizeable policy subject that is too expansive to be addressed in a comprehensive way in a single section in this report. Rather, this report section provides supplemental information to the larger discussion through an analysis of Oregon's WFHDC credit. Oregon's WFHDC is but one component in the larger provision of support provided to households where care is required for younger household members or disabled household members, in order to allow other household members to be employed, seek employment or attend school.

This policy analysis is laid out in five sections. The first section provides some background and context on the provision of child care in Oregon. The second section discusses the confluence of programmatic support for households of low to moderate income. The third section provides background on Oregon's Employment Related Day Care program. The fourth section lists budgetary expense of similar programs in Oregon and the final section concludes with background on taxpayers claiming the WFHDC credit.

The chart below displays the cost of the credit since inception in tax year 2016. The average annual cost of the credit for years 2016-2018 is about $33 million which is the same as the annual average cost (years 2011-2015) of the two credits from which the WFHDC credit was formed.



Background and Context

The definition of "child care" can sometimes vary depending on the context in which the term is used. In some instances child care may be in reference to paid child care whereas in others the term is used more broadly to represent all forms of child care regardless of whether the child is receiving such care in say a day care center setting or from a parent or grandparent. For purposes of the WFHDC credit, qualified

expenses include amounts paid for care of a qualifying individual (e.g. child under 13) by the taxpayer. If for example a grandparent is providing child care at no charge, then no qualified expenses exist.

Categorizing child care arrangements can be difficult in that households can often utilize multiple arrangements at once or at different times (e.g. combination of organized after-school care and grandparents). One distinction is "in a regular care arrangement" or "no regular arrangement".[19] Generally, nearly 40% of preschool aged children have no regular arrangement with about 60% receiving care in a regular arrangement (Laughlin, 2013). Of those in a regular arrangement, a bit over 50% receive some amount of nonrelative care (Laughlin, 2013). It is important to keep in mind that a household's care situation may not align with the household's preferred choice. For example, a household may be utilizing multiple care methods (including family) due to the household's difficulty in affording center-based care or due to available care hours not aligning with household needs due to hours of employment.

From a household perspective, multiple characteristics are involved in determining what type of child care is available and/or utilized by the household. Household income can be a determinant in type of care utilized. The literature refers to a "reservation wage", which is basically the break-even point where going to work will exactly offset the cost of child care. If the income from working is below this wage, then working will reduce the parent's income. Their wage would need to be higher than the reservation wage for work to be financially viable. For a household without sufficient income and with a need and/or desire to purchase child care, outside intervention is necessary for such care to be available to that household. Outside intervention can include governmental support through child care subsidies, income and expenditure support programs and tax credits.

Child care costs less than seven percent of family income is an often used metric to determine affordability of care for a family (Joint Task Force on Access to Quality Affordable Child Care, 2020).[20] According to Oregon State University research (Pratt, Chandler, Barrett-Rivera, Thogmartin, & Weber, 2020), only families making above the median income in Oregon can afford child care in line with the seven percent of family income metric. For families in the U.S. with mothers present and children under 15, the average monthly expenditures on child care as a percent of income was 6.9% for families with income equal to or greater than 200% of poverty level (Laughlin, 2013). This coincides with government early care and education subsidy programs that focus eligibility on families at or below 200% of federal poverty level (WFHDC credit is available to households 300% or less). In Oregon, there are about 265,000 children under the age of six and about 600,000 children under the age of thirteen (U.S. Census Bureau, 2019). Of both respective groups, about one-third live below 200% of the federal poverty level (U.S. Census Bureau, 2019). Census statistics suggest a need of financial support for such families in obtaining paid child care.

Confluence of WFHDC Credit and other Income Support Programs

The intent of the WFHDC credit is not for the credit to work in isolation but rather work as a complimentary policy to other child/dependent care expense offsetting policies and the broader income

[19] Child with no regular arrangement will generally be living with a parent who was not employed and therefore it is assumed the parent is providing the care. "Regular care arrangement" can include care from a relative (e.g. mother, father, grandparent) or a nonrelative (e.g. organized care facility, in child's home, in provider's home).
[20] The U.S. Department of health and Human Services has defined affordable child care as costing no more than 10 percent of family income (U.S. Council of Economic Advisers, 2015).

enhancement policies available to working households of low to moderate income.[21] Before discussing how the WFHDC credit interacts with other programs, a brief discussion of other related programs is provided.[22]

From a broad perspective, other policy related direct spending and tax provisions includes means-tested government transfers and transfers via the tax system. This is displayed in the formula below. Note that negative tax liability (e.g. resulting from federal earned income tax credit) will result in an increase in household income.

$$Household\ income = Inc.before\ transfers\ \&\ taxes + means\ tested\ transfers - federal\ taxes$$

Federal fiscal policies can have a significant effect on the economic resources available to U.S. households. Means-tested transfers and federal taxes also affect the distribution of household income. In 2017, net means-tested transfers and federal income taxes for households in the lowest income quintile increased such households income on average by $14,600 (from $21,300 to $35,900, or about 69%) (CBO, 2020). Means-tested transfers includes: Medicaid and Children's Health Insurance Program (CHIP), Supplement Assistance Nutrition Program (SNAP), Supplementary Security Income (SSI), and other programs.[23] Generally, for households in the lowest income quintile, means-tested transfers have increased as a share of total income since 1980 (CBO, 2020).[24] The vast majority of the growth since 1980 has been driven by growth in Medicaid and CHIP with modest growth in SNAP and SSI and a net decrease in other transfers (CBO, 2020).

Moving from the national macro approach (as used by the CBO analysis) to a more Oregon centric analysis, included in the Spring 2019 DHS/OHA Regional Forecasts by District was a special section titled, Meeting Basic Needs in Oregon's Counties. This special section provides an analysis of the interaction of various policy elements affecting a household's ability to meet its basic needs. The analysis was performed using an Oregon Department of Human Services (DHS) model that simulates how means tested transfer benefits and refundable tax credits affect a household's overall income and expenses as adjusted for geographic location and household composition.[25] The model output is designed to quantify a household's ability to meet basic living expenses (as estimated) after accounting for all sources of income (earned income, transfer benefits and tax credits). The model output is displayed as a "percentage of basic needs met" where 100% reflects a household with total income equal to total expense. The model is designed to provide straightforward examples intended to help illuminate key dynamics inherent in the system

[21] This was reflective in the legislative committee discussions that took place during the 2015 legislative session in which the WFHDC credit was enacted.

[22] For more detailed information and description of programs see *The State of Early Care and Education and Child Care Assistance in Oregon* (2019), Early Learning Division, Oregon Department of Education, https://olis.oregonlegislature.gov/liz/2019I1/Downloads/CommitteeMeetingDocument/221824.

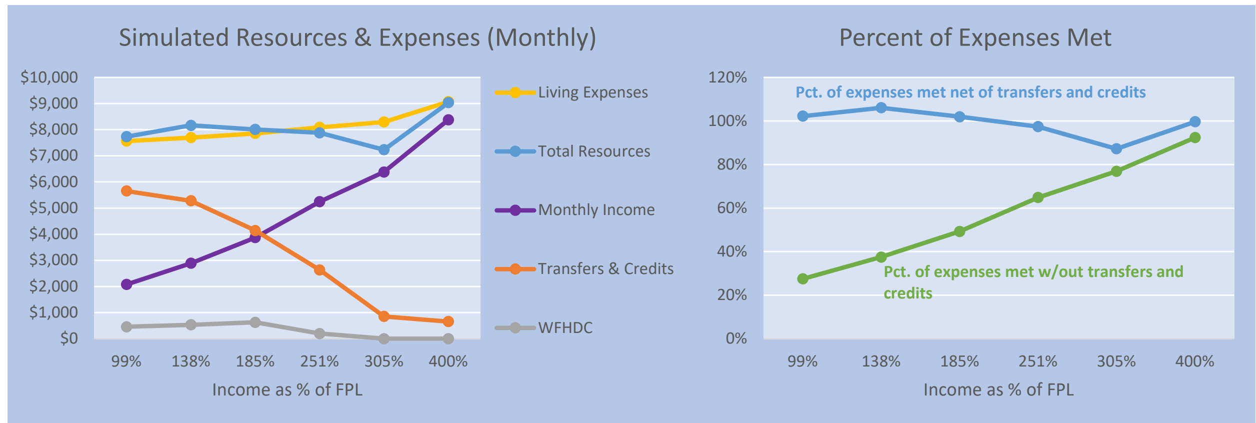
[23] Other includes such programs as housing assistance programs, low-income subsidies for Part D of Medicare, Temporary Assistance for Needy Families (TANF), child nutrition programs, cost-sharing reductions under the Affordable Care Act, Low Income Home Energy Assistance Program, and some state and local government general assistance programs.

[24] This growth has not been consistent, with periods of higher growth and lower growth coinciding with underlying economic conditions.

[25] The full document can be downloaded from https://www.oregon.gov/DHS/BUSINESS-SERVICES/OFRA/ofradocuments/Spring%202019%20Regional%20Caseload%20Forecast.pdf.

(DHS/OHA Office of Forecasting Research and Analysis, 2019). [26] While the model provides examples, it may not accurately reflect the individual situations and experiences of individual households.

The two charts below display the DHS/OHA model's output of a simulated one adult three children household located in Wilsonville. The children in the household are assumed to be aged 1, 3 and 7 years old. The household simulation is performed at various levels of earned wage income as a percentage of federal poverty level (FPL) and reflects monthly simulation amounts. The chart to the lower left displays dollar amounts for the household at the various FPL levels. As displayed in the lower left chart, as household monthly income (earned income, purple line) increases, so does the household's income as a percentage of FPL. The simulation displays the household at 99% of FPL having total resources (earned income + transfers + credits) basically equal to living expenses. This is reflected in percentage terms in the chart to the lower right in which the blue line represents percent of expenses met net of transfers and credits and the green line represents percent of expenses met as a percentage of earned income. The grey line displays the simulated value of the WFHDC credit which is one component of the transfers & credits category.



(DHS/OHA Office of Forecasting Research and Analysis, 2019)

As displayed, the WFHDC credit is a proportionately larger component of overall transfers and credits as income as a percent of FPL increases. In this example, the proportionate value of the WFHDC credit ranges from 8% to 15% of all transfers and credits (for 99% to 251% of FPL). This range largely reflects decreases in transfer amounts that occur as income as percentage of FPL increases.

Collectively, these two charts display the relative importance that transfers and credits have in potentially aligning household resources with household living expenses. In the scenario presented, benefits from Oregon's Employment Related Day Care Program accounted for about half of the household's total transfers and credits, signifying the importance of the direct spending program. Again, this analysis is intended to illuminate key dynamics. Actual household experiences will depend on specific household characteristics and availability of, and qualification for, transfers.

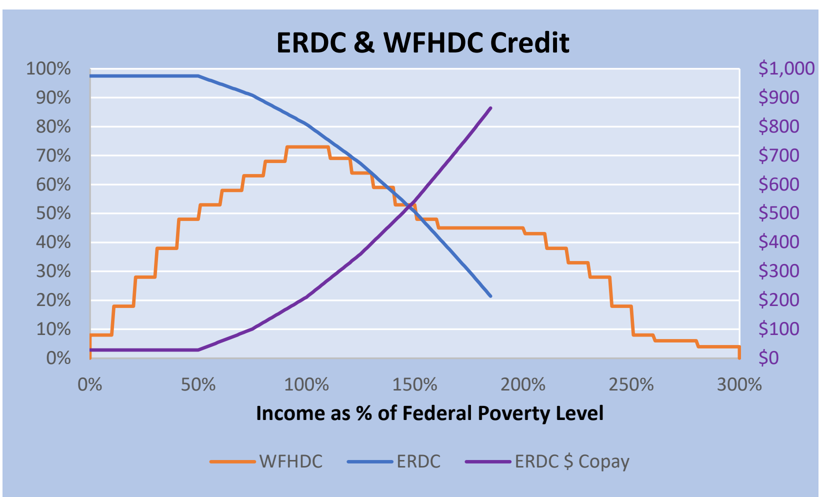
[26] The DHS/OHA model output document did originally contain an error in the WFHDC credit calculation. Updated DHS/OHA document was forthcoming at time of report publication. As such, credit amounts presented in this document may differ, though overall household analysis is similar.

WFHDC Credit and the Employment Related Day Care Program

The Employment Related Day Care (ERDC) program provides subsidies to qualifying parents (working with income below 185% of federal poverty level[27]) to offset the cost of child care of children through age 12. The ERDC is primarily a voucher program that requires parents to pay a copay (paid to child care provider) that increases as income as percentage of FPL increases.

Programs that offset child care costs, such as the ERDC, can reduce use of the WFHDC credit as the credit amount is determined based on employment related expenses paid by the taxpayer. ERDC copayments can qualify for employment related expenses and therefore can be offset by the WFHDC credit. ERDC copayment is determined by formula using a family's income at initial certification and accounts for family size and income. As family income as a percent of FPL increases, so does the required copayment.[28] As Oregon allows child care providers whose fees exceed the maximum ERDC payment rate to charge parents the difference between the provider's usual fee and the maximum rate, those additional fees can also be offset by the WFHDC credit.

The following chart displays how the benefits from the ERDC and WFHDC credit overlap. The orange line displays the WFHDC credit percentage available to taxpayers with the specified income as a percentage of federal poverty level (FPL). As previously discussed, the credit percentage initially increases as income as a percent of FPL increases before phasing out (credit amount equals qualified expenses multiplied by credit percentage). The ERDC works somewhat inversely to the WFHDC credit. The blue line displays the amount of potential child care costs paid by the ERDC, (as a percentage of overall child care cost) with the unpaid amount reflecting the copay required. The purple line displays the ERDC copay amount required to be paid by the taxpayer and aligns with the right vertical axis. The chart is for policy illustrative purposes and is based on a one adult one child household. As a taxpayer's income as a percent of FPL increases, so too does their copay.[29] This copay amount is then partially offset by the credit. For example, a taxpayer with income of about 150% of FPL would be responsible for a copay of about $500 (roughly 50% of childcare costs). With an income equal to 150% of FPL, the taxpayer's credit percentage is equal to 50% which results in a credit amount equal to $250, or half the amount of the copay. However, the taxpayer may not monetarily benefit from the credit until the taxpayer files their tax return, a



[27] ERDC copayment may not increase during the 12-month certification period due to wage increases or job changes which can lead to households above 185% FPL receiving ERDC benefits (OAR 461-150-0090, 461-150-0060).

[28] In response to the COVID-19 pandemic, ERDC emergency policies were adopted including waived copay, increased eligibility and changes to the billing process (Pratt, Chandler, Barrett-Rivera, Thogmartin, & Weber, 2020). "Due to the COVID-19 pandemic, all ERDC copays, beginning March 2020 through the end of the Governor-declared state of emergency period, shall be waived to $0" (Oregon Department of Human Services, 2021).

[29] ERDC become unavailable once income exceeds 185% of FPL.

potentially critical issue for households without the sufficient cash flow or savings to cover the full cost of the copay at the time.

A key policy difference between the ERDC and the WFHDC credit is timing of benefit. The ERDC is a direct spending program where funds are dispersed from the state to a child care provider (that meets DHS requirements) on behalf of a household receiving child care. The household is responsible for the monthly ERDC copay and costs charged in addition to those covered by the ERDC. While challenges do exist for child care providers regarding timing of ERDC payments and copayment received, the program is designed to align timing of payments with childcare liability date (Pratt, Chandler, Barrett-Rivera, Thogmartin, & Weber, 2020). As the WFHDC credit is a refundable credit, taxpayers generally receive the credit benefit at time of tax return filing. Past and current examples exist where tax credit benefits are received periodically throughout the year rather that only at return filing (Holt, Grant, & Aderonmu, 2020). Participation and disbursement of such periodic credit benefits has been mixed (U.S. Government Accountability Office, 2007).

Similar Incentives in Oregon

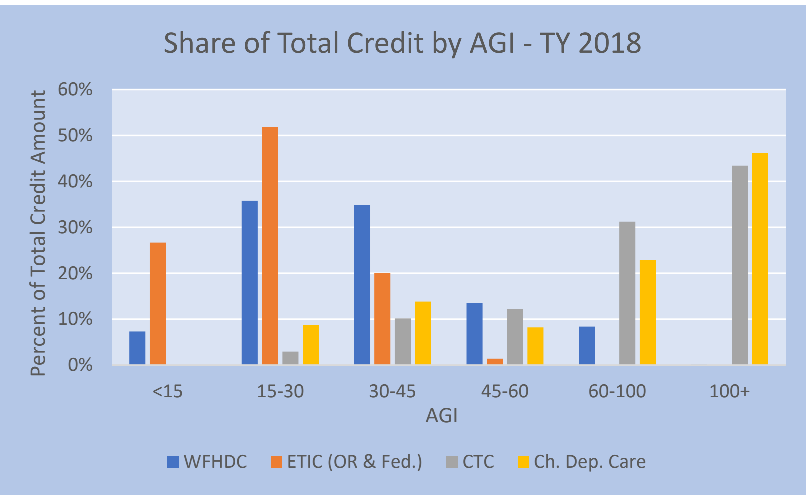
The table to the right details tax credits and direct spending programs in Oregon that overlap with the policy of the WFHDC credit. In addition to the related state and federal tax credits, Oregon has five direct spending programs relating to early child care and education (Early Learning Division, 2019).[30] The identified tax credits increase the after tax income of households that may also qualify for a WFHDC credit. Credit overlap is somewhat limited due to characteristics of each credit.

	2019-21 Legislatively Adopted Budget ($M)	
Other Tax Credits	***General Fund***	***Federal Funds***
Earned Income	$106.6	$1,150
Child with a Disability	$9.0	
Severe Disability	$9.2	
Child		$1,935
Dependent Care		$78.0
Direct Spending Program	***General Fund***	***Federal Funds***
Employment Related Day Care (ERDC)	$66.5	$116.3
Preschool Promise	$37.1	
Oregon Head Start	$156.4	$122.4
Early Head Start	$1.7	$64.2
Baby Promise		$11.0

Note: Other self-sufficiency programs excluded as they are less directly related to WFHDC though. Direct spending does not include new investments from Student Success Act. Credit amounts are estimates.

[30] Focus is on programs available in 2019-21 biennium and does not include new investments from the Student Success Act that will affect the 2021-23 biennium. Recent COVID related funds may not be included.

The chart to the right displays credit amount by adjusted gross income (AGI) and type of credit. As displayed, the WFHDC and EITC credits benefit lower and moderate income households to a greater extent than the federal child tax and child and dependent care credits.



(Oregon Department of Revenue, 2020)

Beneficiaries of the WFHDC Credit

The table below displays the Oregon full-year resident taxpayers directly benefitting from the WFHDC credit for tax year 2018. The five income groups displayed represent the five numerical quintiles of income tax returns filed in 2018 (meaning each category represents 20% of the overall number of tax returns filed in TY 2018). As displayed, the total cost of the credit was $30.5 million with over fifty percent of the credit (by value) going to taxpayers with income below $32,900. The overall average benefit from the credit was $1,100. As the credit is a refundable income tax credit, taxpayers receive the full benefit of the credit regardless of the taxpayer's tax liability.

Working Family Household & Dependent Care | 2018 Personal Income Tax Filers				
Income Group of Full-Year Filers	**Number of Filers Using Credit**	**Avg. Revenue Impact of Credit**	**Revenue Impact ($ millions)**	**Percent of Revenue Impact by Income Group**
< $16,100	2,910	$930	$2.7	9%
$16,100 - $32,900	8,810	$1,480	$13.1	43%
$32,900 - $57,100	10,380	$1,100	$11.5	38%
$57,100 - $100,100	5,550	$590	$3.3	11%
> $100,100	100	$320	<$0.1	<1%
Total Full-Year Filers	**27,760**	**$1,100**	**$30.5**	**100%**

(Oregon Department of Revenue Research Section, 2020)

The three following tables display the credit amount used by adjusted gross income (AGI), average credit amount used by AGI and credit amount used by age of primary taxpayer.[31] As displayed, about half of the credit is claimed by taxpayers with an AGI between 20,000 to 40,000. Unsurprisingly, nearly 75% of the total credit amount is claimed by taxpayers aged 25-45.

Credit Amt. Used by AGI Category TY 2018 | Full Year Filers

AGI (000's)	Used	Pct. of Total
<0	6,300	0%
0-5	55,300	0%
5-10	506,900	2%
10-15	1,662,300	5%
15-20	2,685,400	9%
20-25	3,675,800	12%
25-30	4,578,100	15%
30-35	4,497,600	15%
35-40	3,622,400	12%
40-45	2,522,600	8%
45-50	1,730,700	6%
50-60	2,392,200	8%
60-70	1,497,800	5%
70-80	694,100	2%
80-90	267,600	1%
90-100	105,200	0%
100-250	31,800	0%
250-500	0	0%
500 +	0	0%
Total	**30,532,300**	**100%**

Avg. Credit Amt. Used by AGI Category, TY 2018 Full Year Filers

AGI (000's)	Avg. Amount
<0	$316
0-5	$214
5-10	$680
10-15	$1,104
15-20	$1,381
20-25	$1,467
25-30	$1,516
30-35	$1,481
35-40	$1,328
40-45	$1,063
45-50	$875
50-60	$828
60-70	$662
70-80	$454
80-90	$405
90-100	$523
100-250	$315
250-500	$0
500 +	$0
Total	1,100

Credit Amt. Used by Age Category TY 2018 | Full Year Filers

Age	Used	Pct. of Total
0 - 14	0	0%
15 - 19	56,000	0%
20 - 24	1,954,400	6%
25 - 29	6,892,500	23%
30 - 34	8,692,400	28%
35 - 39	6,950,300	23%
40 - 44	3,767,900	12%
45 - 49	1,425,700	5%
50 - 54	459,200	2%
55 - 59	207,700	1%
60 - 64	79,900	0%
65 - 69	28,500	0%
70 - 74	11,500	0%
75 - 79	4,500	0%
80 - 84	0	0%
85+	0	0%
Unknown	1,900	0%
Total	**30,532,300**	**100%**

(Oregon Department of Revenue, 2020)

Other States

Oregon's WFHDC credit is similar in many ways to the federal Child and Dependent Care credit (Oregon references many of the Internal Revenue Code definitions). The federal credit is also limited to a dependent qualifying child who was under age thirteen when the care was provided. Similar to Oregon's credit, the federal credit amount is equal to a credit percentage multiplied by total qualifying expenses. However, the federal credit limits qualifying expenses to no more than $3,000 (one qualifying individual) or $6,000 (two or more qualifying individuals). A key difference between Oregon's credit and the federal credit is that the federal credit is not refundable. Credit non-refundability means the credit only benefits taxpayers with sufficient tax liability.

Many other states provide state child and dependent care tax credits. Often the state credits are based off or related in some way to the federal credit. In some instances, states allow a state credit equal to a percentage of the federal credit. Some state credits are refundable (or partially refundable). Similar key parameters are that the credit is income based with benefits decreasing as income increases and is directly related to amount of qualifying expenses. Some states provide a deduction of child care expenses.

[31] For married filing jointly taxpayers, age reflects the age of the first taxpayer listed on the tax return.

Individual Development Account Contributions

ORS 315.271	Year Enacted:	1999	Transferable:	No
	Length:	1	Means Tested:	No
	Refundable:	No	Carryfoward:	3-years
TER 1.427	Kind of cap:	Program	Inflation Adjusted:	No

Policy Purpose

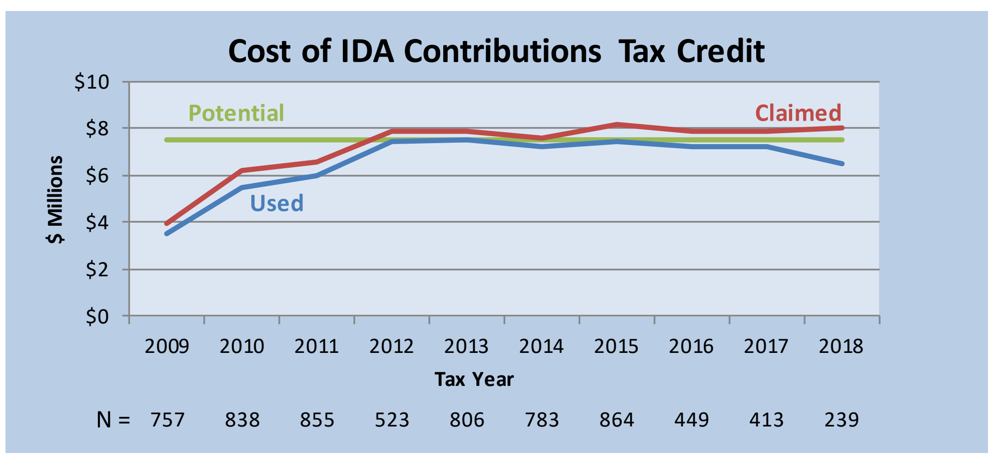
Statute provides the policy purpose for the Individual Development Account (IDA) program in ORS 458.675 (full citation is included below). Statute does not specifically state the purpose of the IDA contribution credit though a general reading of the statute and review of related legislative testimony suggests that the ***policy purpose of the credit is to fund an asset-based antipoverty strategy that promotes personal financial management, investment, and savings for key assets.*** Statute also suggests a periodic review of the program but identifies neither a timeline nor specific metrics for such an evaluation.

> *The Legislative Assembly finds that:*
>
> *(1) The problem of poverty will not be solved solely by government programs and income subsidies.*
>
> *(2) Family economic well-being does not come solely from income, spending or consumption, but instead requires savings, investment, and the accumulation of assets.*
>
> *(3) It is appropriate for the state to institute an asset-based antipoverty strategy.*
>
> *(4) The state has an opportunity to take advantage of private and federal resources by making the transition to an asset-based antipoverty strategy. Those resources include, but are not limited to, the Assets for Independence Act (42 U.S.C. 604) and the Workforce Investment Act (P.L. 105-220).*
>
> *(5) Investment through an individual development account system will help lower income households obtain the assets they need to succeed. Communities and this state will experience resultant economic and social benefits accruing from the promotion of job training and higher education, home ownership and small business development.*
>
> *(6) It is desirable for this state to enact legislation that enables an authorized fiduciary organization sufficient flexibility to receive private, state and federal moneys for individual development accounts. The Legislative Assembly should periodically review the provisions of ORS 458.675 to 458.700 to ensure that this state maximizes the receipt of available federal moneys for individual development accounts.*

Description

Individuals or businesses donating to the state-selected fiduciary agency (currently the Neighborhood Partnership Fund) for individual development accounts (IDAs) are allowed a tax credit equal to a percentage of the amount donated. The credit percentage is determined by the fiduciary agency but may not exceed 90 percent of the amount donated. Tax credit qualifying contributions to the fiduciary organization are for distribution to IDAs. Contribution amounts used to compute the credit must be added to Oregon taxable income if such amounts (or any portion thereof) is claimed as an itemized deduction when computing federal taxable income. The total credits allowed to all taxpayers in any tax year is limited to $7.5 million.

The graph below shows the use of the tax credit on tax returns from 2009 through 2018.[32] The green line shows the annual tax credit limit. Because unused credit amounts from past years can be carried forward, it is possible for total credit use to exceed the $7.5 million annual cap in a given year. As displayed, in tax years 2012 through 2018, full allotment of the credits was claimed. While the data are for both personal and corporate income tax filers, very few corporations have claimed the tax credit in any given year. At time of report publication, tax year 2018 is the most recent published data available. As described in detail in the policy analysis portion of this report, recent IDA donations and associated use of this credit has decreased since 2018.



Initially, use of the IDA credit consistently grew over time before levelling off near its statutory limit beginning in 2012. One key aspect to the program is that, while not originally in statute, the Housing and Community Services Department initially maintained a limit on the amount of annual donations eligible for a tax credit. The limit was $4 million for 2006, $6 million for 2007, and $8 million for 2008. The limit increased to $10 million in 2009. In 2015, total annual credits were limited to $7.5 million (equivalent of donation limit of $10 million with a 75% of donation amount credit maximum) and the credit percentage was set at 70% of amount contributed. In 2019, the maximum credit percentage was increased to 90%.

In the 2020 2nd Special Session, $2.0 million was appropriated from the General Fund to the IDA program.

	2019-21 Legislatively Adopted Budget ($M)
Direct Spending Program	***General Fund***
Individual Development Account Program	$2.0

Policy Analysis

This tax credit program is another example of where there are two distinct groups of beneficiaries – those who benefit directly by using the tax credit to reduce their tax liability and those that benefit from the IDA program which receives funding from tax credit associated contributions. As previously described, the purpose of the credit is predominately to function as a funding source for the IDA program and as such,

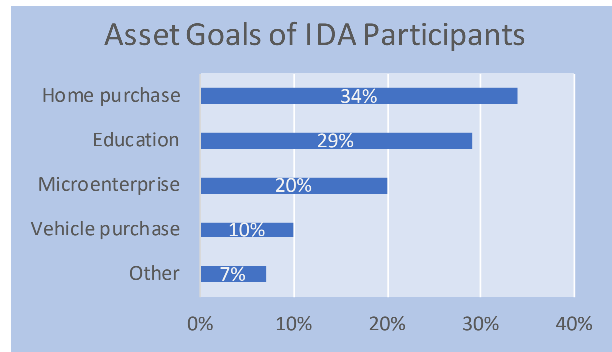
[32] Tax year 2018 is for personal income tax filers only.

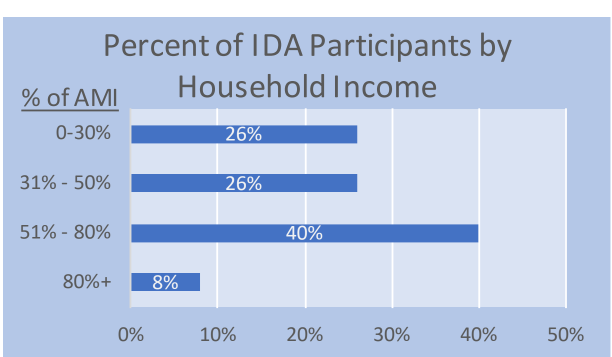
much of the following analysis is focused on how the credit has performed.[33] Also included in this policy analysis is descriptive analysis of the IDA program and a brief literature review of such programs.

IDA Program Background

The Oregon IDA program was created in 1999 and is overseen by the Oregon Housing and Community Services Department (OHCS). While OHCS oversees the program, Neighborhood Partnerships is the fiduciary organization that manages the program and further partners with other nonprofit organizations to execute the IDA program. The IDA program is in essence a matched savings program available to lower income households of modest wealth. Participants establish IDA accounts and contribute savings of their own to be used for allowed specified purposes. Program participants receive financial education, financial counseling, and training crafted to their specific goals. Once their specific goals for the program have been met, they are considered 'graduates'. Upon completion of their savings goals and other requirements, the participant's savings are matched according to a formula established by the fiduciary organization. Tax credit associated contributions to Neighborhood Partnerships provide the primary funding source for matching participant savings.

Since 2015, on average about 1,450 participants have enrolled in the IDA program each year with the number of program completers averaging about 1,060 over the same time period (Neighborhood Partnerships, 2020). Individual participants must be an Oregon resident who is at least 12 years old. Participants may establish an IDA only for a purpose approved by a fiduciary organization. ORS 458.685 specifies purposes that the fiduciary organization may approve. Statutory income limits are based on a household having an income equal to or less than the greater of 80% of the median household income for the area or 200% of the poverty guidelines. On average, participants completing the program saved nearly $2,400 and received an average match of about $5,650 (Neighborhood Partnerships, 2020). The following two charts display proportion of IDA participants by asset goal and household income as a percent of area median income (AMI).[34]





(Neighborhood Partnerships, 2020)

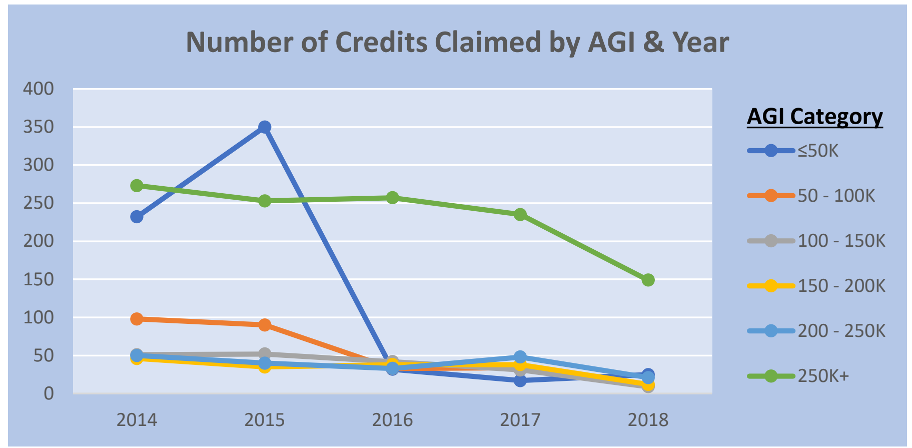
[33] This is underscored by SB 5723 of the second special session of 2020 in which $2.0 million was appropriated from the General Fund to the IDA program. The measure's accompanying budget note specified the funds were "to augment proceeds from tax credit sales that are used for administration and matching funds for IDA program participants" (LFO, 2020).

[34] Both charts reflect percentages for accounts established in 2018 and 2019.

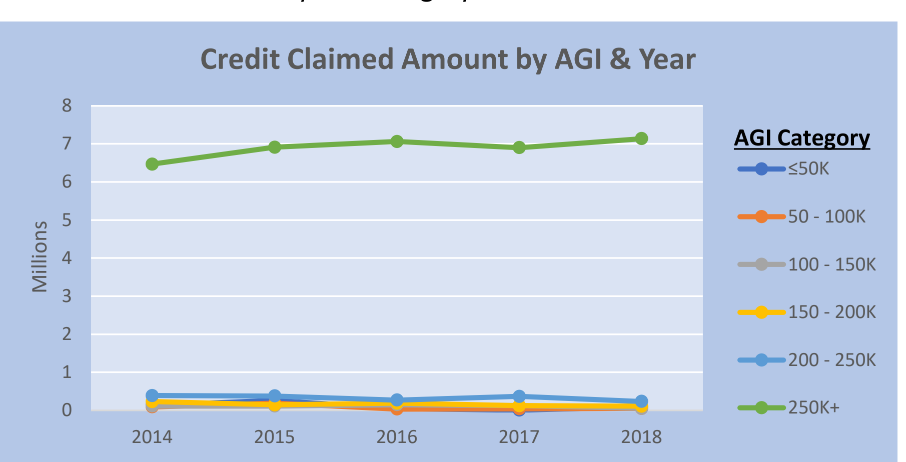
IDA Contribution Tax Credit

Oregon's IDA contribution tax credit is equal to a percentage of the taxpayer's donation amount. The donation percentage is determined by the fiduciary organization[35] but statute currently limits the credit percentage to no more than 90 percent of the donation amount. Generally, the statutory percentage limit is the percentage offered by the fiduciary organization. The credit percentage has varied in the past, with the originally enacted 1999 percentage equaling 25%. From 2001 to 2015 the percentage equaled 75% before being lowered to 70% until 2019 when the percentage was increased to 90%. The credit percentage can directly affect the overall amount of donations in that annual tax credits are limited to $7.5 million. A credit percentage of 90% means annual donations qualifying for the credit are limited to about $8.3 million whereas a credit percentage equal to 70% limits donations to about $10.7 million. However, a low credit percentage may not as effectively encourage donations to be made.

As displayed in the following series of charts, donations to the IDA program and associated credits largely originate from high-income taxpayers. The chart to the right displays the number of credits claimed in the previous five years categorized by adjusted gross income (AGI) of the taxpayer claiming the credit. As displayed, in recent years the number of taxpayers claiming the credit has reduced, with much of the reduction stemming from taxpayers with AGI less than $50,000 or taxpayers with AGI greater than $250,000.

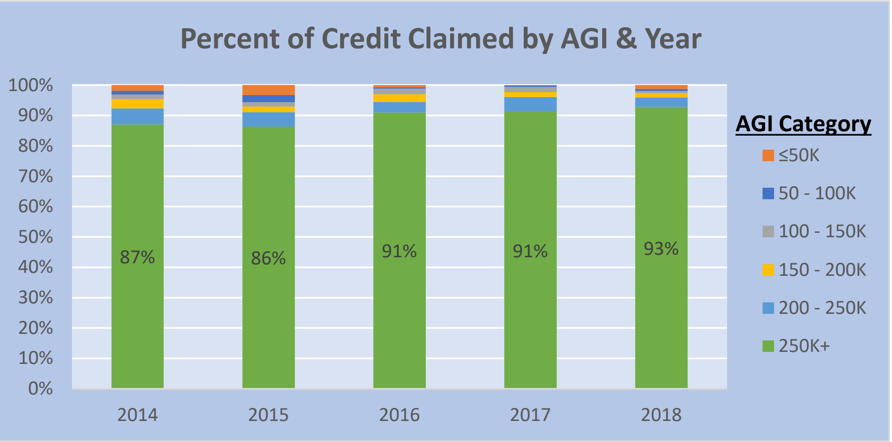


When examining the total amount of credit claimed by AGI category the share of the credit attributable to higher income taxpayers becomes even more clear. As displayed in the chart to the right, the vast majority of the credit has consistently been claimed by taxpayers with AGI greater than 250,000.

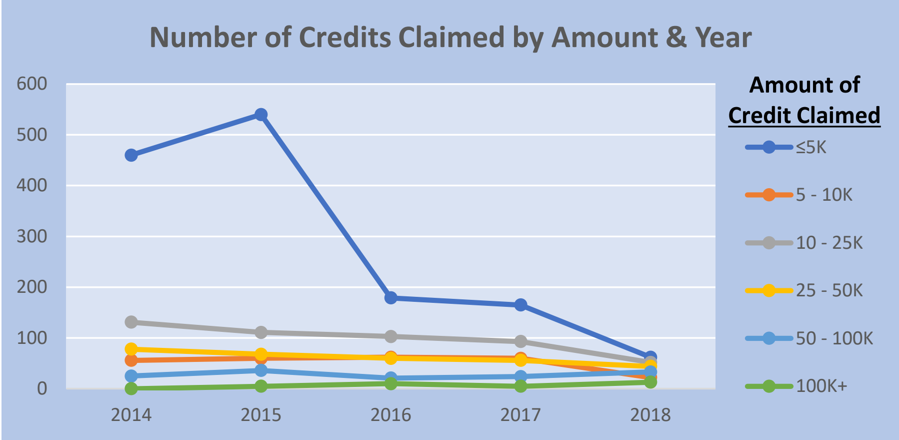


[35] Neighborhood Partnerships is past and current fiduciary organization.

As displayed in the following charts, in recent years over 90% of the credit claimed amount has been claimed by taxpayers with an AGI greater than $250,000. This also suggests that donations to the IDA program are highly dependent on a relatively small number of taxpayers making substantial donations. In tax year 2018, the overall average credit amount claimed per taxpayer was $34,000 with thirteen taxpayers claiming a credit in excess of $100,000.[36]



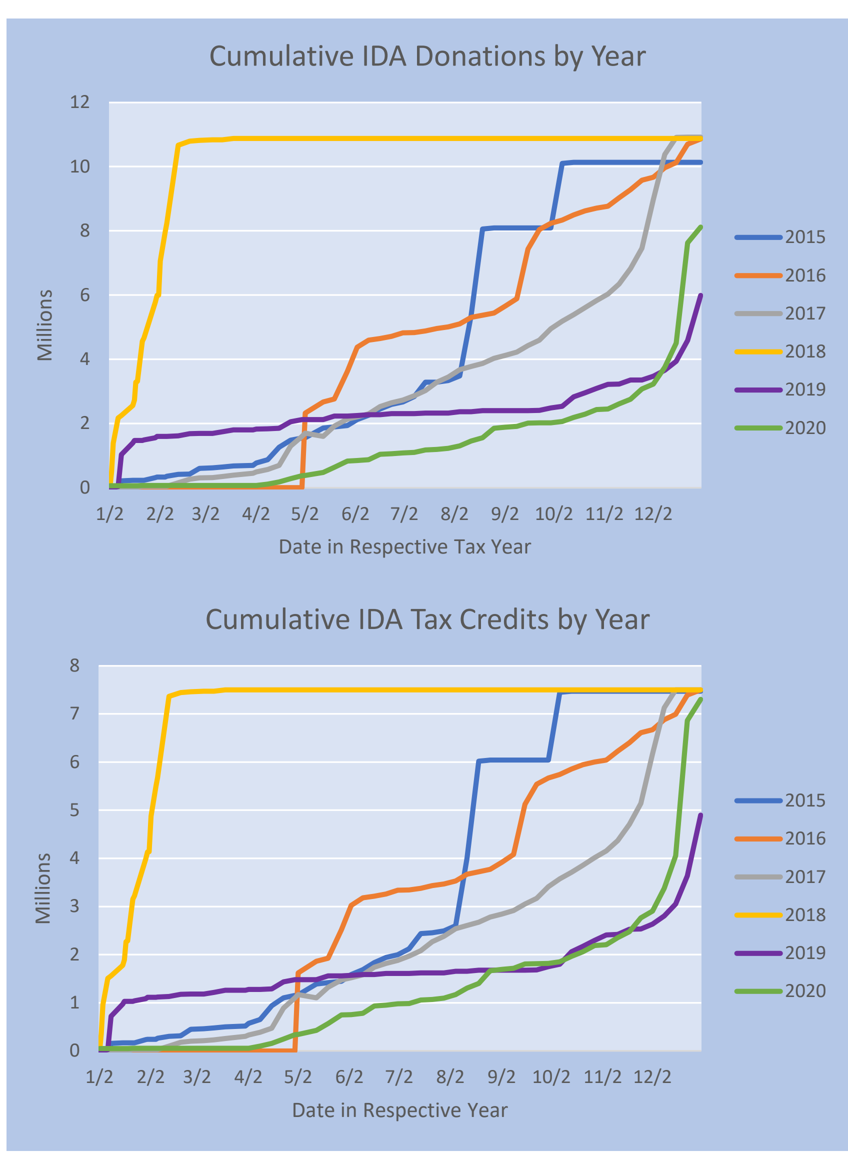
Corresponding with the reduction in credit claimants from taxpayers with AGI less than $50,000 is the reduction in the number of taxpayers claiming a credit amount less than $5,000. As displayed in the chart to the right, the overall number of credits claimed has reduced in recent years with the largest reduction occurring related to credit claimed amounts less than $5,000. This chart underscores a further shift in reliance on higher income taxpayers making large IDA donations.



The previous group of charts displayed taxpayer use of the credit through the 2018 tax year which is the most recently available information at time of report publication regarding tax return sourced information. By contrast, recent IDA donation data received from Neighborhood Partnerships provides donation amounts received through 2020. It is important to keep in mind that donation and credit amount are linked but credit amount depends on the credit percentage. For example, a $100 donation made with a 70% credit percentage will yield a credit equal to $70 whereas that same $100 donation will yield a $90 credit when the credit percentage is equal to 90%.

[36] ORS 315.271(5) limits the total credit allowed to a taxpayer in any tax year to a maximum of $500,000.

The chart below displays the cumulative IDA donations by date received for the current and previous five years.[37] The second chart reflects the cumulative credit amount that corresponds to the donation and respective credit percentage. The horizontal axis is the date in the respective year and the vertical axis displays the cumulative total of donations/credits received as of the date. For example, the chart displays how by March of 2018, sufficient donations were made to reach the annual $7.5 million credit maximum. This compares to 2019 when just under $6 million in donations were made by the end of the year (corresponding to just under $5 million in credits).



For all years displayed, the total annual credit amount has been limited to $7.5 million. In 2015 the credit percentage was 75% compared to 70% in years 2016-2018 (this caused the donation amount to max out at a lower amount in 2015). In the fall of 2019, the credit percentage was increased to 90% of the donation amount.

As displayed in the charts, for years 2015 through 2018, donations were received in sufficient amounts to fully allocate the $7.5 million in credits available annually.[38] Following Dec. 2017 federal tax law changes, donations in 2018 followed a much different pattern than the other years displayed. In 2019, only about $5 million in credits were allocated even with the credit percentage being increased to 90% in the latter part of the year. Through mid-November, the 2020 donation pattern was shaping up to be similar to 2019. However, the late surge

[37] Raw donation data provided by Neighborhood Partnerships. Date of donations was modified slightly to align comparisons between years.

[38] In 2016, tax credits became available beginning in May.

of donations received in December of 2020 was significantly greater in 2020 than in 2019. About $5 million in donations were received in December of 2020 as compared to about $2.6 million in 2019.[39]

Implications of Recent Federal Changes

While multiple reasons may have contributed to the surge in early-year contributions received in 2018 and subsequent decreases in years 2019 & 2020, the likely primary factors are relatively recent federal tax law changes & accompanying IRS rules and regulations.

The upshot of the changes in regard to the IDA contributions credit is that federal changes have potentially increased the cost (or decreased the benefit) to some taxpayers making such contributions. The following tables illustrate how cost to some taxpayers making contributions to the IDA program may have increased in recent years.[40] Furthermore, it is possible some taxpayers were filing tax returns in such a way as to receive a net gain from their IDA contribution.

Illustrative Examples of Tax Credit Values for IDA Contributions			
	Column A	Column B	Column C
	70% Credit		90% Credit
	Fully Deduct at Federal	**Deduct Increment at Federal**	**Deduct Increment at Federal**
Contribution	$10,000	$10,000	$10,000
Oregon Credit	$7,000	$7,000	$9,000
Oregon Deduction	$0	$0	$0
Federal Deduction	$3,200	$960	$320
Total "cost" to Taxpayer	**-$200**	**$2,040**	**$680**
Net IDA & State GF	**$3,000**	**$3,000**	**$1,000**
IDA Program	$10,000	$10,000	$10,000
State General Fund (GF)	-$7,000	-$7,000	-$9,000

Note: Example is intended for illustrative purposes only. Actual amounts will vary depending on individual circumstances of taxpayer and donation.

The table to the right depicts potential "cost" to the taxpayer of making an IDA donation under various circumstances.[41] **Column A** displays an IDA credit equal to 70% of donation amount where the taxpayer deducts the full $10,000 donation as an itemized charitable deduction on their federal return. The $7,000 credit combined with the $3,200 deduction yields a "cost" to the taxpayer of -$200 (taxpayer nets $200 from making the donation).[42] The IDA program receives $10,000 whereas the state General Fund revenue is reduced by $7,000. **Column B** displays the same circumstances as column A only in this scenario the taxpayer only federally deducts the increment in line with IRS rules/regulations. In this case the taxpayer's federal deduction is worth $960[43] resulting in a total cost to the taxpayer of $2,040. **Column C** displays a $10,000 donation when the Oregon credit percentage is 90% of donation amount. In this example the value of the credit is $9,000, federal deduction is equal to $320 and the total cost to the taxpayer is $680.

[39] In December of 2020, three donations of $555,000 (credit of $500,000) were received which is the maximum individual donation amount allowed by statute.

[40] It's important to note that that actual differences will depend on the characteristics of individual taxpayer returns. The examples provided here are simplified and intended for contextual understanding.

[41] The table is intended to be a simplified illustrative example. Actual amounts will depend on particular taxpayer circumstances. Example assumes a federal marginal tax rate of 32% with the taxpayer being above the 10,000 limit on the federal deduction for state and local taxes (SALT). Example also ignores the time value of money.

[42] Calculations: 10,000 * 32% = $3,200 | 10,000 - 7,000 - 3,200 = -$200

[43] Calculations: (10,000 - 7,000) * 32% = $960 | 10,000 - 7,000 - 960 = $2,040

As the credit percentage amount is increased from 70% to 90%, the IDA program continues to receive $10,000 in donation but state General Fund revenue is reduced by $9,000.[44]

The table to the lower right depicts the potential net difference to a taxpayer when the taxpayer donates capital gain property (e.g. stock) to the IDA program.[45] The upshot of the table is that the difference between the taxpayer's basis and fair market value (FMV) of the stock will influence the potential benefit to the taxpayer of making such donation (depicted in table as "net difference to taxpayer"). This results from the potential tax consequences of realizing capital gains income.

In **column A**, the taxpayer's basis and FMV are equal, meaning no capital gain exists. In this example, sale of $10,000 in stock leaves the taxpayer with $10,000 as no income tax is levied. By contrast, donating the stock worth $10,000 yields a net tax benefit to the taxpayer of $9,320 equal to a net difference of -$680 from donation the stock.

Illustrative Example of Capital Gain Property Charitable Donation

		Column A	Column B	Column C
Capital Gain Property (E.G. - stock)				
	Basis	$10,000	$7,270	$5,000
	Fair Market Value	$10,000	$10,000	$10,000
Stock not donated to charity	Cap Gain Income	$0	$2,730	$5,000
	Federal Tax	$0	$410	$750
	Oregon Tax	$0	$270	$495
	Total Tax	$0	$680	$1,245
	Net to taxpayer	**$10,000**	**$9,320**	**$8,755**
Stock donated to charity	Stock Donation	$10,000	$10,000	$10,000
	OR Credit	$9,000	$9,000	$9,000
	Fed. Deduction	$320	$320	$320
	Tax	$0	$0	$0
	Net to taxpayer	**$9,320**	**$9,320**	**$9,320**
Net difference to taxpayer		***-$680***	***$0***	***$565***

Note: Example is intended for illustrative purposes only. Actual amounts will vary depending on individual circumstances of taxpayer and donation.

Column B displays the break-even point for the taxpayer. The taxpayer's basis is equal to $7,270 and FMV is again $10,000 which results in capital gain income of $2,730. Federal and state income tax on the capital gain income totals $680 ($410 and $270 respectively). After tax, the taxpayer has $9,320. Donating the stock yields the same amount for the taxpayer. In response to the taxpayer's 10,000 donation, the taxpayer receives a $9,000 Oregon credit and a federal itemized deduction benefitting the taxpayer equal to $320 for a net of $9,320 to the taxpayer.

Column C provides an example where the taxpayer receives greater benefit by donating the stock rather than selling the stock and realizing the capital gain. In this example, the taxpayer's basis is $5,000 and FMV remains $10,000 which results in capital gain income of $5,000. Federal and state income tax levied on the capital gain totals $1,245 ($750 & $495 respectively), yielding $8,755 to the taxpayer post tax. By contrast, donating the stock yields $9,320 to the taxpayer through the state credit and federal deduction. The donation results in a net difference to the taxpayer of $565.[46]

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[44] Calculations: (10,000 - 9,000) * 32% = $320 | 10,000 - 9,000 - 320 = $680

[45] The Oregon IDA Initiative provides specific instructions and policies relating to stock/mutual fund contributions to the IDA program (Oregon IDA Initiative, 2020). Additionally, investment institutions often advertise the potential benefits of donating stocks to charities and offer advice on how to make such contributions.

[46] Calculations for examples in columns A, B, & C:

Capital gain income = FMV - basis
Federal tax = capital gain inc. × 15% | Federal deduction = stock donation × 32%
Oregon tax = capital gain inc. × 9.9% | OR credit = stock donation × 90%
Net diff. to taxpayer = net to taxpayer (donated to charity) - net to taxpayer (not donated to charity)

In 2019, about 63% of donations received were identified as stock donation whereas in 2020 donations of stock equaled about 56% of all donations received, though the percentage increases to 70% if the three non-stock $555,000 donations made are excluded from the total.[47]

Both tables providing illustrative examples are intended to display how recent US Treasury rules/regulations and subsequent Oregon changes to the IDA credit percentage have potentially affected the incentive for taxpayers to donate to the IDA program. As discussed previously, the IDA credit is generally claimed by higher income taxpayers making relatively large donations. As such, the donation practices of a relatively small number of taxpayers can influence the overall amount of donations received (and credits claimed). In response to decreased donations received in 2019, Neighborhood Partnerships adjusted their marketing and donation solicitation. Estimates of cost to extend the IDA tax credit without modification assume 2020 donations are more reflective of potential future donations than the 2019 experience.

IDA Program Literature Review

IDA programs materialized in the U.S. in the 1990's and programs are available throughout the country. Since introduction in the 1990's a number of studies and articles have been published. A literature review of the IDA topic is available from the U.S. Department of Housing and Urban Developments' Office of Policy Development and Research.[48]

Other States

Individual Development Account programs are ubiquitous throughout the United States. A CCH AnswerConnect search identified a few other states that have implemented a tax credit to fund their IDA program including: Indiana, Kansas, and Michigan. A summary of the key characteristics of the respective state's tax credit programs are:

- The credit allowed is a percentage of the contribution or fixed amount
- Stipulates a maximum credit amount (annual or all years)
- A collective annual cap for all tax credit claimants
- Qualifying organization must meet stated criteria.

The administrative costs for the tax credit portion of the IDA program are primarily born by Neighborhood Partnerships, with some state agency costs from the state General Fund. On average, Neighborhood Partnerships has spent about $150,000 per year on tax credit marketing and donation solicitation.

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[47] Based on analysis of donation data received from Neighborhood Partnerships (IDA Initiative, 2020).
[48] https://www.huduser.gov/portal/periodicals/em/fall12/highlight2.html#title

Office of Child Care Contributions

ORS 315.213	Year Enacted:	2001	Transferable:	No
	Length:	1	Means Tested:	No
	Refundable:	No	Carryfoward:	4-years
TER 1.426	Kind of cap:	Program	Inflation Adjusted:	No

Policy Purpose

Bill documentation for the 2001 implementing legislation (HB 2676) states that the ***policy purpose*** of the tax credit is to

> ***Encourage taxpayers to make contributions to the Office of Child Care by providing a financial return on qualified contributions...Achieve specific and measurable goals for targeted communities and populations...strengthen the viability and improve the professional development of child care providers.***[49]

The implementing bill identified criteria for the Child Care Division to use when identifying eligible child care providers and determining their allocation amounts.

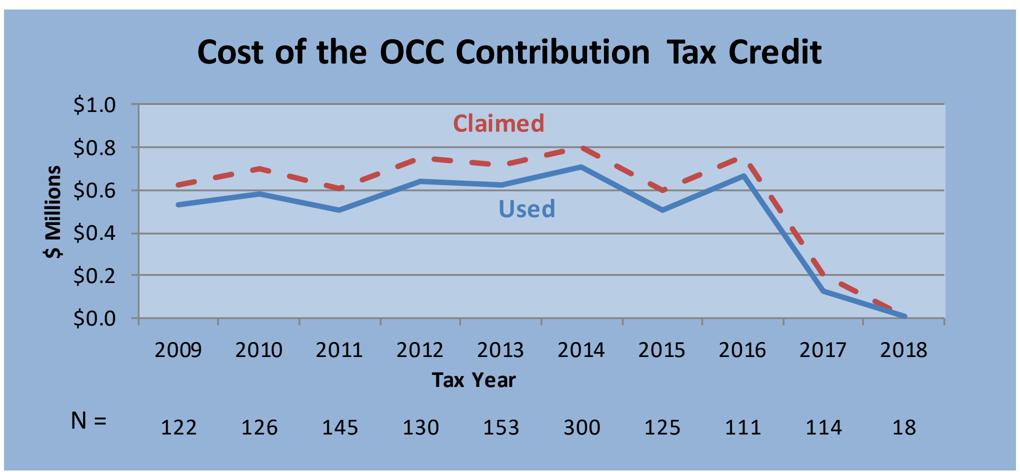
Description

Individuals or businesses that make certified contributions to the Office of Child Care (OCC) are allowed a credit against personal or corporate income taxes. The credit is equal to 50 percent of the contribution amount and total tax credit certificates are limited to $500,000 per calendar year.[50] If the amount claimed as a credit is allowed as a deduction for federal tax purposes, the amount allowed as a credit is added to federal taxable income for Oregon tax purposes.

The OCC and selected community agencies distribute the money according to rules established by the Early Learning Council. A selected community agency is a nonprofit agency that provides services related to child care, children and families, community development, or similar services and is eligible to receive tax deductible contributions.

As shown in the following chart, use of this tax credit has plummeted in recent years. For tax years 2009 through 2016, reported use of the credit was relatively consistent, averaging about $600,000 per year with about 120 taxpayers claiming the credit each year. Unused tax credits from any one tax year may be carried forward and used in subsequent tax years for up to four years. In tax year 2018, only 18 taxpayers claimed the credit with less than $10,000 in total credits being used.

[49] ORS 329A.703(2)
[50] Technically the credit is limited to no more than 50 percent of the contribution amount but in practice the percentage certified has been the maximum allowed.



Policy Analysis

The statutorily stated policy purpose of this credit consists of three parts, the first of which is to encourage contributions to the Office of Child Care (OCC) by providing a financial return on qualified contributions. The remaining parts of the purpose declare the desired outcomes from spending the contributions. This analysis focuses on the credit's efficacy of encouraging contributions.

As displayed in the chart above, use of the credit fell precipitously beginning in tax year 2017. Contribution data obtained from the Early Learning Division indicates contributions received in recent years continue to be minimal. The credit in its current form is not meeting its policy purpose of encouraging contributions. While many reasons may have contributed to the decrease in contributions, the likely primary factors are recent federal tax law changes & accompanying IRS rules and regulations and the reduction in credit percentage that became effective beginning with the 2016 tax year when the percentage went from 75% of the amount contributed to 50%.

The upshot of the changes in regard to the OCC contributions credit is that federal changes have increased the cost to the taxpayer of making such contributions. The table on the following page illustrates how cost to some taxpayers making contributions to the OCC may have increased in recent years.[51] Furthermore, it is possible taxpayers were previously filing tax returns in such a way as to receive a net gain from their OCC contributions. The table consists of three columns (A, B, C) that each represent an example of the potential value to the taxpayer of tax provisions relating to the credit. The table displays how "cost" to the taxpayer of donating to the OCC can vary depending on credit percentage and interpretation of related federal tax law.

Column A (current law)

Taxpayer makes a $10,000 contribution to the OCC and receives an OR credit equal to $5,000 (50% of contribution). Taxpayer may also deduct as a charitable contribution the $5,000 portion of the donation not offset by the credit. This $5,000 deduction reduces the taxpayer's Oregon tax liability by $495 and reduces federal tax liability by $1,600. Net of tax credits and deductions, the taxpayer's total cost of the

[51] It's important to note that that actual differences will depend on the characteristics of individual taxpayer returns. The examples provided here are simplified and intended for contextual understanding.

$10,000 contribution is $2,905.[52] Said another way, the Oregon and federal tax systems refund $7,095 of the original $10,000 contributed.

Column B (pre tax year 2016)

Taxpayer makes a $10,000 contribution to the OCC. Under this scenario, the OR credit is worth more (reflective of the higher percentage) causing the deduction amounts to be less. In this case the taxpayer's total cost of the $10,000 contribution is $1,552.[53]

Illustrative Examples of Tax Credit Values for OCC Contributions			
	Column A	Column B	Column C
	50% Credit	75% Credit	
	Deduct Increment at Federal	**Deduct Increment at Federal**	**Fully Deduct at Federal**
Contribution	$10,000	$10,000	$10,000
Oregon Credit	$5,000	$7,500	$7,500
Oregon Deduction	$495	$248	$248
Federal Deduction	$1,600	$700	$2,800
Total "cost" to Taxpayer	$2,905	$1,552	-$548
Net change for Oregon	**$4,505**	**$2,252**	**$2,252**
Office of Child Care	$10,000	$10,000	$10,000
State General Fund	-$5,495	-$7,748	-$7,748

Column C (pre tax year 2016, taxpayer fully deducts contribution amount on federal tax return)

In this example, the taxpayer deducts as a charitable contribution the entire $10,000 on their federal tax return. As displayed, fully deducting the contribution at the federal level yields a total cost to the taxpayer of -$548. Alternatively stated, the Oregon and federal tax systems refunded the taxpayer $10,548 for a $10,000 contribution. Viewed in this light, the incentive provided by the Oregon tax credit to contribute to the OCC becomes clear.

This full deductibility portrayed in Column C is contrary to IRS rules and regulations first proposed in August of 2018. While this practice was likely never in compliance with federal tax law, it may have nonetheless been utilized. The released IRS rules and regulations clearly state that the interpretation of the IRS is to disallow such deductions.

Benefit to Oregon

The table also displays the potential net benefit to the Office of Child Care and the General Fund (labeled as net change for Oregon).[54] In the presented examples, the taxpayer makes a $10,000 contribution to the OCC. Under the 50% credit, this reduces General Fund revenue by $5,495 (sum of credit and deduction) yielding a net benefit of $4,505. By contrast, a 75% credit yields a net benefit of $2,252. This

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[52] Calculations: $5,000 x 9.9% OR tax rate | $5,000 x 32% federal tax rate | $10,000 - $5,000 - $495 - $1,600
[53] Calculations: $2,500 x 9.9% OR tax rate | $2,500 x 32% federal tax rate | $10,000 - $7,500 - $248 - $700
[54] Net benefit to the state assumes the taxpayer would not have made the contribution absent the tax credit and ignores other opportunity costs.

illustrates the value to the state of providing the lowest credit percentage possible to incentivize contributions.

In light of recent federal changes and the corresponding continued minimal amount of contributions being incentivized by the credit, other policy options are likely necessary to ensure nearly $1 million in annual contributions are received by OCC. Expanding outreach and awareness of the credit could induce greater contributions. Increasing the credit percentage would likely induce more contributions but performance of other similar contribution inducing credits suggests a credit percentage of 90 percent or possibly greater than 100 percent is needed to induce a sufficiently large amount of contributions.[55] Direct funding (either full or partial) of the OCC could be used as a backstop if a desired amount of contributions are not received.

Administrative Costs

The administrative costs of this tax credit are primarily incurred by the OCC as they accept donations and certify tax credits. The Department of Revenue and taxpayers have the customary marginal costs of processing, auditing, and record keeping, respectively.

Other States

Colorado offers a similar credit in that taxpayers may claim a credit for monetary contributions that promote child care in Colorado.[56] The credit is equal to 50% of the total value of the contribution, up to a maximum of $100,000 or a taxpayer's actual income tax liability for the tax year (nonrefundable credit). A key difference between Colorado's credit and Oregon's is that Colorado allows the credit to taxpayers that donate directly to a child care organization or facility, whereas Oregon requires the donations to be made to the Office of Child Care from which the funds are then distributed. Contributions do not qualify for a credit if made to a child care facility in which the taxpayer or a person related to the taxpayer has a financial interest or if the donor receives consideration from the donee organization. Contributions made to a for-profit business must be used directly for the acquisition or improvement of facilities, equipment, or services, including the improvement of staff salaries, staff training, or the quality of child care.

According to Colorado's 2018 tax expenditure report (Colorado Department of Revenue, 2018), the revenue impact for Colorado's child care donation tax credit was $23.9 million in 2016. About 21,100 taxpayers reported claiming the credit in 2015 with an average contribution of $1,218. The number of taxpayers and amount of the tax credit being claimed is concentrated amongst higher income taxpayers with 96% of the credit amount going to taxpayers with AGI greater than $100,000 and nearly 40% of the credit amount going to taxpayers with AGI $1 million or greater. Seventy-one C-corporations claimed the credit for a total use of about $560,000.

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[55] Based on contribution percentages available through the Individual Development Account credit (90%) and conversion of Oregon Production Incentive Fund & Opportunity Grant Fund credit auction results (equivalent of about 110%).

[56] Colorado defines "child care" as care provided to a child twelve years of age or younger (§39-22-121, C.R.S)

Child with a Disability

ORS 316.099	Year Enacted:	1985	Transferable:	No
	Length:	1	Means Tested:	Yes
	Refundable:	No	Carryfoward:	No
TER 1.407	Kind of cap:	Credit Amount	Inflation Adjusted:	Yes

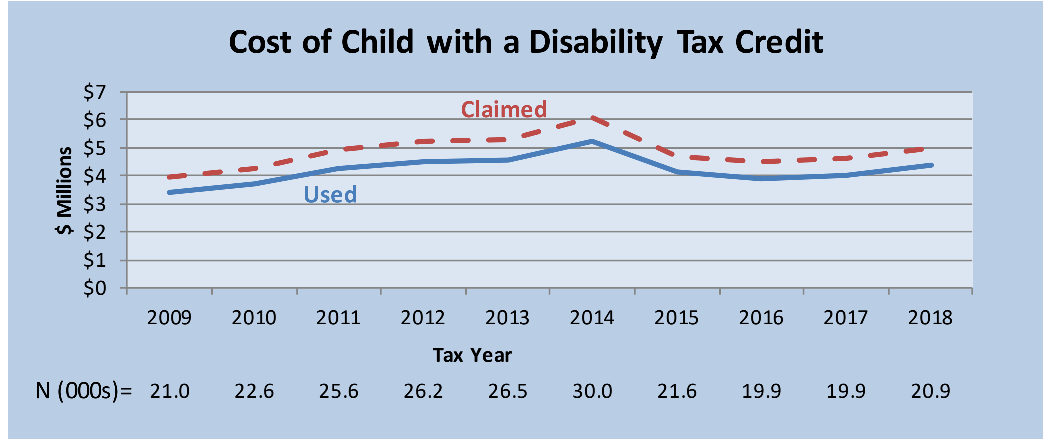
Policy Purpose

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 relief and offset costs associated with a child's disability.

Description

Taxpayers with adjusted gross income (AGI) up to $100,000 are allowed an additional personal exemption credit for each dependent child who meets a statutory definition of disabled. Most taxpayers are allowed one personal exemption credit for himself/herself, a spouse, and for each dependent.[57] The personal exemption credit is indexed to inflation and will be $214 in 2021. The child with a disability credit is in addition to the standard personal exemption credit. A "child with a disability" is defined as a dependent child who is eligible for early intervention services, or who is diagnosed for special education purposes as being autistic, mentally retarded, multi-disabled, visually impaired, hearing impaired, deaf-blind, orthopedically impaired, other health impaired, or as having serious emotional disturbance or traumatic brain injury, in accordance with State Board of Education rules.

The following graph shows the use of this tax credit between 2009 and 2018. Change in overall use of the credit can be influenced by both the value of the credit (which is indexed to inflation) and the number of taxpayers claiming the additional exemption(s). As displayed, the number of taxpayers claiming the credit decreased substantially in tax year 2015 reflective of enhanced qualification validation implemented in tax return processing. Reduction in use continued in tax year 2016 reflective of credit means testing passed in 2015 (HB 2171), and effective beginning with tax year 2016. On average, 87 percent of the tax credit claimed was used to offset tax liability.



[57] Taxpayers who are not allowed a personal exemption credit are those who are claimed as a dependent on someone else's tax return, single filers with adjusted gross income exceeding $100,000, and joint filers with adjusted gross income exceeding $200,000.

The table below displays the Oregon full-year resident taxpayers directly benefitting from the child with a disability credit for tax year 2018. The five income groups displayed represent the five numerical quintiles of income tax returns filed in 2018 (meaning each category represents 20% of the overall number of tax returns filed in TY 2018). As displayed, the total cost of the credit was $3.8 million. The overall average benefit from the credit was $200. As the credit is unavailable to taxpayers with AGI greater than $100K, use of the credit is nonexistent in the highest quintile. While the credit was equal to $201 in 2018, average amount of the credit can exceed that amount if taxpayer is claiming a credit for multiple children with a disability.

Child with a Disability | 2018 Personal Income Tax Filers

Income Group of Full-Year Filers	Number of Filers Using Credit	Avg. Revenue Impact of Credit	Revenue Impact ($ millions)	Percent of Revenue Impact by Income Group
< $16,100	2,920	$20	$0.1	3%
$16,100 - $32,900	5,030	$200	$1.0	26%
$32,900 - $57,100	5,670	$240	$1.3	34%
$57,100 - $100,100	5,810	$240	$1.4	37%
> $100,100	0	$0	$0.0	0%
Total Full-Year Filers	**19,440**	**$200**	**$3.8**	**100%**

(Oregon Department of Revenue Research Section, 2020)

Policy Analysis

Because the policy objectives of the two disability tax credits included in this report are substantially similar, the impact analysis for both credits is provided once following the Severe Disability credit.

Other Issues

Because this tax credit is simply an additional personal exemption credit, administrative costs are minimal.

Severe Disability

ORS 316.758, 316.765	Year Enacted:	1985	Transferable:	No
	Length:	1	Means Tested:	Yes
	Refundable:	No	Carryfoward:	No
TER 1.410	Kind of cap:	Credit Amount	Inflation Adjusted:	Yes

Policy Purpose

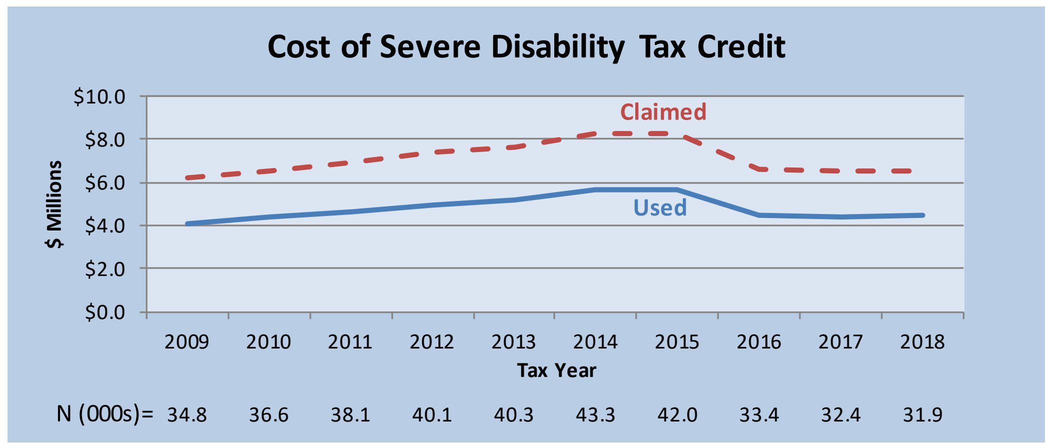
Because this provision is not an incentive to encourage a specific kind of behavior, a reasonable assumption is that the intent is to provide financial relief and offset costs associated with a taxpayer's/spouse's disability.

Description

Individuals with a severe disability are allowed an additional personal exemption credit against personal income taxes; up to two for qualifying joint filers. The credit is indexed to inflation and will be $214 in 2021. Severe disability is defined by any of the following:

- The loss of use of one or more lower extremities
- The loss of use of both hands
- Permanent blindness
- A physical or mental condition that limits the abilities of the person to earn a living, maintain a household, or provide personal transportation without employing special orthopedic or medical equipment or outside help.

The graph below shows the relatively stable growth of this tax credit between 2009 and 2014. Change in overall use of the credit can be influenced by both the value of the credit (which is indexed to inflation) and the number of taxpayers claiming the additional exemption(s). Beginning with the 2016 tax year, the credit was limited to taxpayers with adjusted gross income (AGI) that does not exceed $100,000 for the tax year. This means testing caused the level shift down in use of the tax credit and has contributed to the recent modest year over year declines in the number of taxpayers claiming the credit as more taxpayers exceed the non-inflation indexed AGI limit.



The table below displays the Oregon full-year resident taxpayers directly benefitting from the sever disability credit for tax year 2018. The five income groups displayed represent the five numerical quintiles of income tax returns filed in 2018 (meaning each category represents 20% of the overall number of tax returns filed in TY 2018). As displayed, the total cost of the credit was $3.9 million. The overall average benefit from the credit was $130. As the credit is unavailable to taxpayers with AGI greater than $100K, use of the credit is nonexistent in the highest quintile. On average, about 68% of the credit amount claimed is used to reduce tax liability.

Severe Disability | 2018 Personal Income Tax Filers				
Income Group of Full-Year Filers	Number of Filers Using Credit	Avg. Revenue Impact of Credit	Revenue Impact ($ millions)	Percent of Revenue Impact by Income Group
< $16,100	9,740	$50	$0.5	13%
$16,100 - $32,900	6,760	$140	$0.9	23%
$32,900 - $57,100	6,430	$170	$1.1	28%
$57,100 - $100,100	7,300	$190	$1.4	36%
> $100,100	0	$0	$0.0	0%
Total Full-Year Filers	**30,230**	**$130**	**$3.9**	**100%**

Policy Analysis (for both disability related tax credits)

The analysis of these tax credits is fundamentally different from the analysis for other tax credits. These two tax credit are not incentives to encourage a certain kind of behavior. The most likely explanation for these tax credits is to provide financial assistance and to offset costs associated with having a disability. The AGI limitation is not indexed to inflation contributing to the recent decreased numerical use in the credit.

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 & Buhai, 2006). 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, 2001). 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.

Similar Policies Available in Oregon

The Aging and People with Disabilities and the Intellectual and Developmental Disabilities programs serve individuals that may also benefit from the tax credit. Aging and People with Disabilities and its partners

provide services for seniors and adults with physical disabilities. The Intellectual and Developmental Disability program serves more than 28,000 people (8,650 children and 19,420 adults) with intellectual and developmental disabilities throughout their life span. This program's mission is to help individuals be fully engaged in life and, at the same time, address critical health and safety needs.

The table below displays the respective budget appropriations and sources of funds for the two programs as contained in the 2019-21 October 2019 Legislatively Adopted Budget.

	2019-21 Legislatively Adopted Budget ($M)		
Direct Spending Program	***General Fund***	***Other Funds***	***Federal Funds***
Aging and People with Disabilities	$1,207	$250.8	$2,489
Intellectual & Developmental Disabilities	$1,054	$28.6	$2,002

Other Issues

The administrative costs are mostly born by the DOR and taxpayers. For the DOR, the administrative costs are minimal. For taxpayers, costs will be related to record keeping for potential tax audits.

Other states do have similar tax credits. When reviewed collectively the general characteristics are described below.

Key Characteristics

- Clear definition/determination of disability, such as retirement on full and permanent disability, deaf, blind, loss of limb(s), or development disability
- Credit could be for disabled taxpayer or taxpayer taking care of a disabled person
- State credit could be simple percentage of federal credit.

Public University Venture Development Fund

ORS 315.521	Year Enacted:	2005	Transferable:	No
	Length:	1	Means Tested:	No
	Refundable:	No	Carryfoward:	3-years
TER 1.422	Kind of cap:	Program	Inflation Adjusted:	No

Policy Purpose

While statute does not contain a public policy purpose or goal for the tax credit, it does state the purpose for Public University Venture Development Funds (UVDF). ORS 351.697(1) states that the purpose of these funds is to facilitate "…the commercialization of university research and development." Statute continues as follows:

> *(2) The purposes of a university venture development fund are to provide:*
>
> *(a) Capital for university entrepreneurial programs*
>
> *(b) Opportunities for students to gain experience in applying research to commercial activities*
>
> *(c) Proof-of-concept funding for transforming research and development concepts into commercially viable products and services and*
>
> *(d) Entrepreneurial opportunities for persons interested in transforming research into viable commercial ventures that create jobs in this state.*

Based on legislative committee discussions and the statutory purpose of the UVDF, a reasonable interpretation of ***the policy purpose of the credit is to encourage contributions to respective university venture development funds***.

After the initial indirect outlays from the General Fund via the tax credit, state supported funding for the UVDF is designed to function in an equalized manner. Once a UVDF certifies its statutorily limited total allotment of tax credits, the university may only certify additional tax credits equal to amounts repaid to the General Fund through income realized from UVDF supported commercialization of university research and development. Statute identifies neither a timeline nor specific metrics for evaluating the policy. Testimony provided to the House Committee on Revenue on behalf of participating universities suggested a reasonable timeline of 10-12 years for evaluating the program in terms of dollars beginning to cycle back from UVDF to the General Fund (Wall, 2016).

Description

Individuals and businesses that make donations to Public University Venture Development Funds are allowed a tax credit against personal or corporate income taxes. The tax credit is equal to 60 percent of the amount contributed but may not exceed $600,000. The amount of the credit may not exceed the tax liability of the taxpayer and unused credit amounts can be carried forward for up to three succeeding tax years.

Oregon universities may establish university venture development funds to provide capital for affiliate research and development of commercially viable products and services. Amounts contributed to UVDFs are used to support the commercialization of university research and campus-based entrepreneurial education. Either the university or its affiliate organizations may accept donations, issue credits, and manage the monies in the funds. Typically, the university foundation has this role.

Statute limits the amount each university's UVDF may owe the General Fund.[58] Once a university issues tax credits equal to its specified maximum, the university may only issue additional credits equal to the amount the university has repaid the General Fund. The total amount of tax credits available to be issued for all universities is $8.4 million (each university's limit is displayed in the table in the policy analysis section later). A university must transfer 20 percent of the income realized through its UVDF to the state General Fund, up to the amount of tax credits issued by the university as a result of contributions.

Policy Analysis

As indicated in statute, the core function of the UVDF program is to facilitate the commercialization of university research and development through proof-of-concept funding, improving capital availability and support for student experience in applying research to commercial activities. The purpose of the credit is to encourage contributions to UVDF programs up to the statutory limit ($8.4 million aggregate limit for all universities) with continued contribution facilitation occurring as repayments to the General Fund are received from respective UVDFs.

Generally speaking, the expectation is that it may take 10-12 years for a research concept to go from a concept to commercialization. Oregon's Signature Research Centers support the commercialization of products conceived at Oregon's universities. Even with this support, stakeholders were of the opinion that there was a gap in the funding process. The UVDFs were designed to eliminate this gap by focusing on the entrepreneurship and proof-of-concept stages and ensuring sufficient financial support in the early stages of product development.

The administration of this program uses the concept of tax credit certificate authority. This is the amount of donations to a given fund that is the basis for calculating the tax credit. The total amount of tax credit certificate authority for all funds is $14 million. This total translates into the statutory tax credit cap of $8.4 million, which is 60 percent of the $14 million. The administrative rules for this program allocate this authority across the education institutions. For example, Oregon State University has the largest share of authority with nearly $6.6 million ($3.9 million in tax credits). The table below displays tax credit authority for each university. Statute allows the presidents of any two or more universities that have established a university venture development fund to achieve an annual agreement for the reallocation of amounts within their respective limits.

Certified Tax Credit Limit by Education Institution			
Oregon State	$3,947,720	Eastern Oregon	$7,500
University of Oregon	$2,122,670	Southern Oregon	$7,500
Portland State	$1,275,840	Western Oregon	$7,500
Oregon Health & Science	$1,023,770	Oregon Institute of Tech.	$7,500

[58] Owe in this context refers to the total amount of tax credits issued by the UVDF.

Credit Incentivization of Contributions to UVDFs

The Oregon credit creates an incentive for Oregon taxpayers with sufficient tax liability to make contributions to respective UVDFs. The following table provides an example of the value of the tax credit from a perspective taxpayer's point of view.[59] The table displays two potential options for the taxpayer, one is a donation to a UVDF while the other is a donation to a tax exempt charitable institution (labeled "Without UVDF Credit" in table). As displayed in the table, the total after tax "cost" to the taxpayer of donating $10,000 to a UVDF is $2,720 which reflects $6,000 offset through the Oregon tax credit and an additional $1,280 offset as a federal deduction on the taxpayer's federal return. This contrasts with a typical charitable donation where $990 and $3,200 are offset through itemized deductions on the taxpayer's Oregon and federal income tax returns respectively.

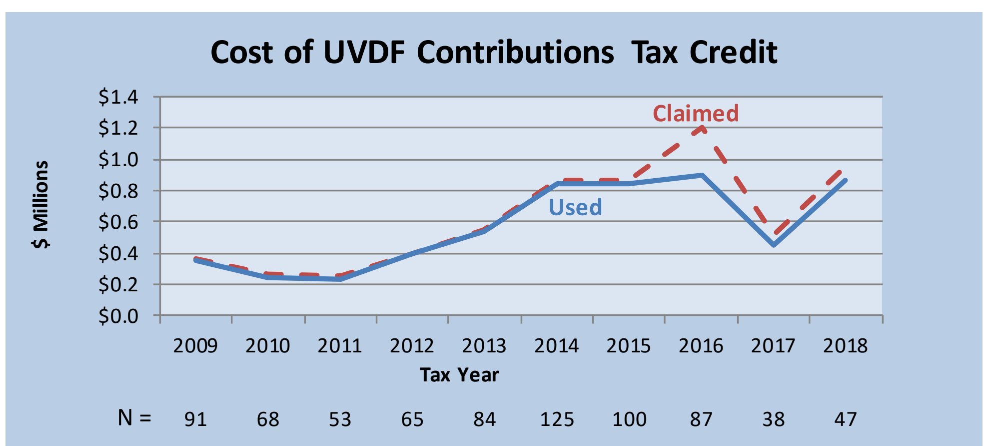
Illustrative Example of Tax Credit Value

	With UVDF Credit	Without UVDF Credit
Contribution	$10,000	$10,000
Oregon Credit	$6,000	$0
Oregon Deduction	N/A[1]	$990
Federal Deduction[2]	$1,280	$3,200
Total "cost" to Taxpayer	**$2,720**	**$5,810**

[1] ORS 315.640(6) effectively disallows a taxpayer that claims the credit from also claiming an Oregon deduction for the same donation.

[2] IRS regulations require taxpayers to reduce their charitable contribution deductions by the amount of any state tax credit they receive in return.

Historically, the tax credit is used by about 70 taxpayers per year with very few corporations using the tax credit. On average, about $500,000 in tax credits are claimed and used each year. The following chart displays the historic claim and use of the credit. Tax year 2016 coincided with credit policy changes likely causing the reporting discrepancy between credit claimed and credit used.



Unlike some of Oregon's other matching donation tax credits,[60] recent contributions and credit use indicate that the credit continues to incentivize taxpayer contributions to UVDFs. Having said that, future use of the credit may be limited as multiple universities are nearing their respective tax credit limits thereby limiting future tax credit certifications until repayments to the state General Fund are made.

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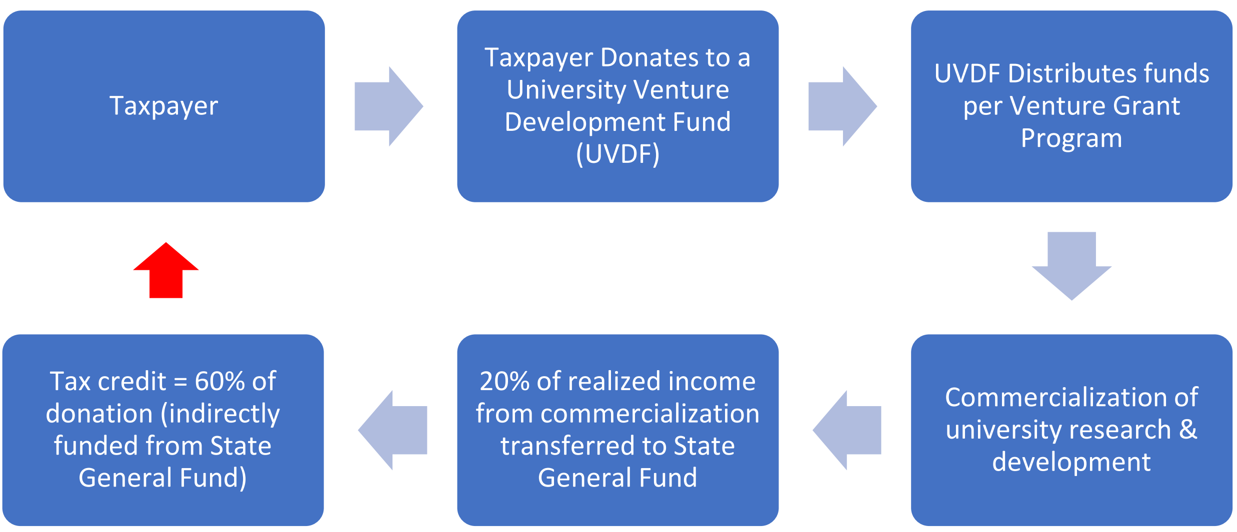
[59] This example is simplified for illustrative purposes. Actual amounts would depend on the particulars of an individual's tax return. For this example, a marginal income tax rate of 9.9% is assumed for Oregon and 32% for federal.

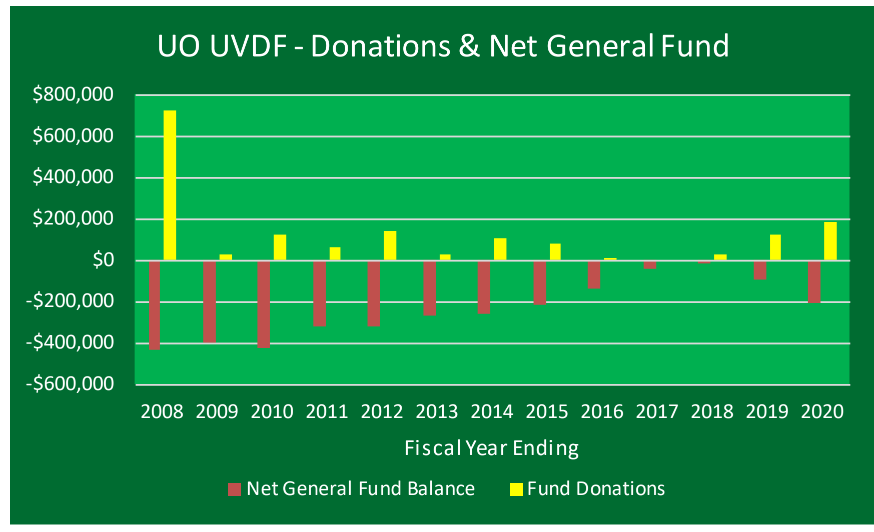
[60] See report section on Office of Child Care Contribution.

Credit Contribution, UVDFs and Fund Flows

The exhibit below illustrates the flow of funds for the UVDF tax credit program and is specific to the flow of tax credit related funds. Excluded from this exhibit are potential knock-on effects from UVDF funding resulting from commercialization such as new business formation and related employment. As displayed, the flow of funds begins with a taxpayer donating to a UVDF. The taxpayer then receives a tax credit equal to 60% of the donation amount which is funded through decreased State General Fund tax receipts. The UVDF then distributes funds through the Venture Grant Program supporting the commercialization of university research and development. Twenty percent of subsequent income received by the UVDF from commercialization (royalties, license fee payments, sale of equity, etc.) is then transferred to the State General Fund (up to certified tax credit amounts). Once a UVDF reaches its tax credit certification limit, the UVDF may only continue to issue tax credit certificates in amounts equal to tax credits repaid to the General Fund.



The experience of the University of Oregon's (UO) UVDF provides an example (though atypical compared to the other education institutions) of the potential flow of funds relating to the contribution credit. The yellow columns on the following chart reflect contributions to UO's UVDF whereas the maroon columns display the net outstanding balance of the General Fund expended via the tax credit. As displayed, the outstanding balance of the General Fund has been declining in recent years reflective of repayments received from the UO UVDF.[61] While making repayments to the General Fund, UO continued to receive contributions to its UVDF. At time of report publication, UO had largely repaid the full balance with the General Fund while having received nearly $1.7 million in UVDF contributions since inception.



The table on the following page provides a status of the program as of June 30, 2020. The information is based on statutorily required university annual reports. In total, $11.1 million in donations have been made since program inception. That total translates into $6.6 million in tax credits issued. Of the $11.1 million received, a total of $8.4 million has been awarded. Also, income and royalties of $5.6 million have been received, most of which by the University of Oregon (UO) program. The General Fund has been repaid roughly $900,000 most of which coming from the UO program. Outside of UO, about $800,000 in credits remain to be issued without additional transfers to the General Fund being received from Oregon State University, Oregon Health and Science University and Portland State University (OSU, OHSU and PSU). As UO has repaid the General Fund, additional tax credit certification automatically is awarded allowing UO to issue up to $1.9 million in credits (as of June 30, 2020).

[61] A recent repayment received after the 2020 fiscal year end of about $200K zeros out the General Fund balance.

Public University Venture Development Funds ($'s in Millions)					
	OSU	UO	OHSU	PSU	Total
Deposits					
Fund Donations	$6.3	$1.7	$1.6	$1.5	$11.1
Income to the Fund	$0.0	$0.1	$0.1	$0.0	$0.1
Income and Royalties from Disbursement	$0.0	$5.0	$0.4	$0.2	$5.6
Withdrawals					
Disbursements and Grants	$4.4	$1.3	$1.2	$1.8	$8.7
Tax Credits					
Total Certificate Authority	$6.6	$3.5	$1.7	$2.1	$14.0
Total Credits Allowed	$3.9	$2.1	$1.0	$1.3	$8.4
Credits Issued	$3.8	$1.0	$1.0	$0.9	$6.6
Credits Available to be Issued	$0.2	$1.9	$0.2	$0.4	$2.7
General Fund					
Transfers to the General Fund	$0.0	$0.8	$0.1	$0.0	$0.9
General Fund Net	-$3.8	-$0.2	-$0.9	-$0.9	-$5.7

As of June 30, 2020

Given the potentially long duration for a financial return on investment (ROI) to be realized, there is some question as to the optimal time frame for evaluating this particular tax credit. The ultimate test of whether or not this program works is measuring the ROI. Despite this ideal approach, initial information suggests there are differences in the returns across the funds as the UO has received $5.0 million in income and royalties on disbursements of $1.3 million.

Similar Incentives Available in Oregon

The Legislative Fiscal Office identified five direct spending programs that shared some level of policy relationship to the credit. The five spending programs along with each program's 2019-21 legislatively adopted budget amount is detailed in the table below.

	2019-21 Legislatively Adopted Budget ($M)		
Direct Spending Program	***General Fund***	***Lottery Funds***	***Other Funds***
Signature Research Centers	$1.1	$12.4	
University Innovation Research Fund	$2.6		$10.0
Tallwood Design Institute	$3.6		
Renewable Energy Center	$0.5		
Oregon Metals Initiative		$9.2	$3.4

Signature Research Centers (SRCs) focus on emerging industry sectors where Oregon has innate advantages and are potential high-growth sectors in the future. There are three Signature Research Centers. These SRCs work directly with Oregon's four research universities in a partnership designed to commercialize the R&D being created on campus, support the commercialization of R&D in the private sector, and increase the collaboration and capacity of the state's universities.

The University Innovation Research Fund is used to match federal funds that support innovation and commercialization of technology from Oregon's public universities and Oregon Health & Science University, which has a direct or potential connection to economic development.

The Tallwood Design Institute is a research collaborative that focuses exclusively on the advancement of structural wood products. It conducts the research needed for widespread adoption of mass timber building technology in the U.S. The Institute is a partnership between Oregon State University and the University of Oregon.

The Oregon Institute of Technology Oregon Renewable Energy Center serves small and medium-sized companies seeking a university collaborator to prototype, test, validate, and accelerate “cleantech” products and renewable energy applications.

The Oregon Metals Initiative, Inc. (OMI) is a consortium of metals industry companies and research institutions that pursue research to improve the long-term competitiveness of the metals industry and the research infrastructure in Oregon. This objective is met through joint industry-academic research projects.

Other Issues

While this program was based on the Washington Commercialization Gap Fund (CGF), which is a partnership between the University of Washington Center for Commercialization and the Washington Research Foundation, using a tax credit as the source for funds appears to be unique. There appear to be no other states that offer such a tax credit.

The administrative costs for this program are largely born by the universities or their affiliate foundations that have created these funds. They solicit contributions, and receive, manage, and distribute money contributed to their funds. They also certify the tax credits. The university or foundation may charge an administrative assessment of up to three percent of the fund’s average balance during the fiscal year. As with all tax credits, taxpayers and the DOR have costs associated with record keeping and processing & auditing, respectively.

Bovine Manure for Biofuel

ORS 315.176	Year Enacted:	2017	Transferable:	Yes
	Length:	1-year	Means Tested:	No
	Refundable:	No	Carryforward:	4-years
TER 1.430	Kind of cap:	Program	Inflation Adjusted:	No

Policy Purpose

The bovine manure for biofuel tax credit was created in 2017 as a spin-off from the expired production or collection of biomass credit that sunset at the end of 2017. While the purpose of the biomass tax credit was largely focused on biomass energy production/use and obtaining desired associated environmental improvements, the ***policy purpose of the bovine manure for biofuel tax credit is to ensure the viability and use of digester technology investment.***[62] Discussions that occurred during committee hearings for the enacting legislation revolved around the monetary value of the credit and its use in supporting the construction and operation of manure digestors.

Description

Producers or collectors of bovine manure are allowed a tax credit that they may use to offset their personal or corporate income tax liability. Producers and collectors of bovine manure refer to persons that produce or collect bovine manure in Oregon that is used, in Oregon, as biofuel or to produce biofuel. The bovine manure is required to be produced on Oregon farms and derived from cows, heifers, bulls, steers, or calves.

The amount of the credit is equal to $3.50 per wet ton of bovine manure. The credit can be claimed only once for each wet ton of bovine manure. The amount of the credit used in a given tax year cannot exceed the tax liability of the individual or corporation claiming the credit though unused portions of the credit may be carried forward for up to four succeeding tax years. A person that has earned the tax credit may also transfer the credit to another taxpayer.

To claim the credit, producers/collectors must apply for credit certification through the Oregon Department of Agriculture (ODA).[63] Certification of the tax credit is limited to $5 million for all taxpayers for any calendar year. If demand for credit certifications exceeds the $5 million annual limit, ODA proportionately reduces credit certifications to the limit. The credit is scheduled to sunset on January 1, 2022.

Policy Analysis

A relatively small number of taxpayers claim the bovine manure tax credit. The credit first became available beginning with tax year 2018 though prior to that, the credit was a component of the biomass credit. Certification data displayed in this report reflects current bovine manure credit and biomass credit certifications specific to manure.[64]

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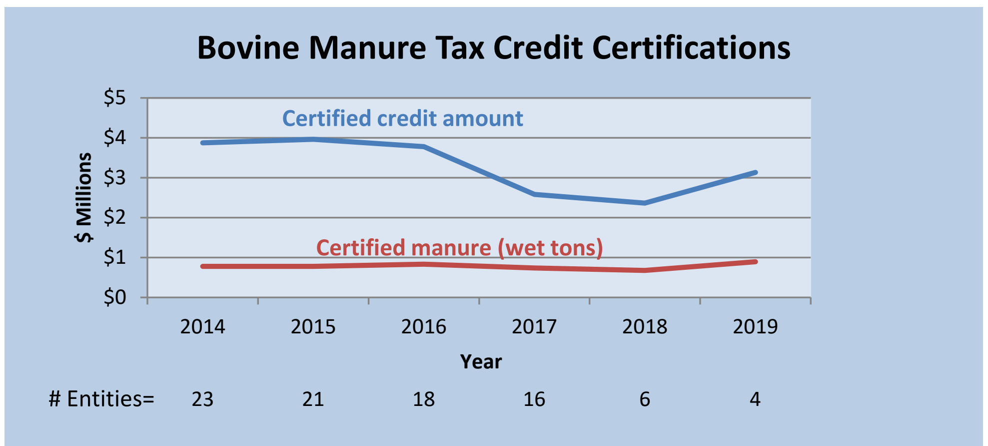
[62] Per the stated policy purpose contained in the enacting legislation's revenue impact statement - HB 2066 (2017).

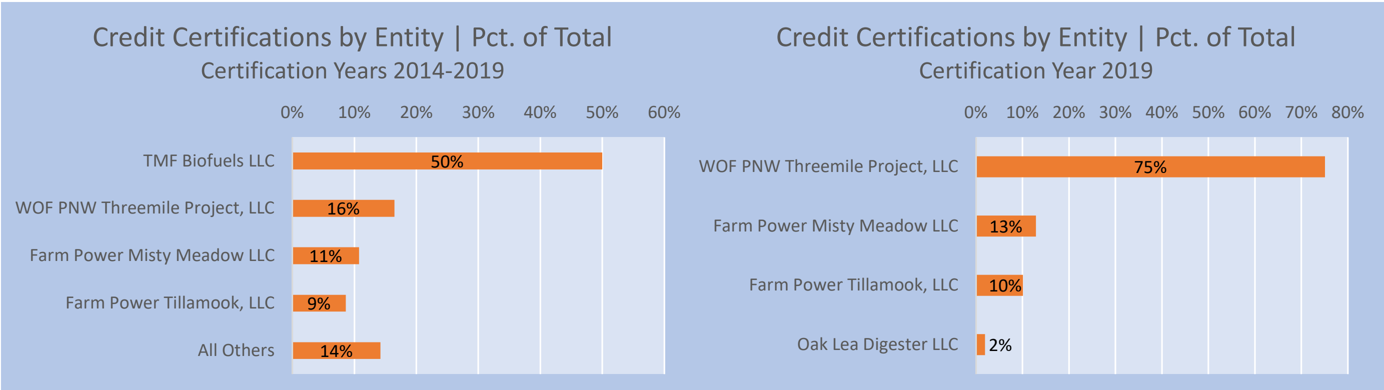
[63] ODA is allowed to charge a certification application fee to cover the agency's cost in administering the credit certification. The application fee is equal to $100 + 3.8% of the total amount of tax credit.

[64] Certification data was queried from the Oregon Transparency Website with recent year data appended from certification data received from Oregon Department of Agriculture.

In 2018, twenty personal income taxpayers claimed $1.6 million in tax credits. Tax year 2018 credit numbers for corporate income taxpayers claiming the credit are not available due to disclosure law limitations. Credit certification data is available and displays the concentrated use of the credit by individual business entities. The first exhibit below displays the amount of tax credits certified by year and the number of unique entities receiving credit certification. Also displayed is the amount of manure for which credit certification was received. As displayed, the amount of certified manure has been relatively stable. The shift down in certified credit amount beginning in 2017 reflects the credit amount per wet ton of manure being reduced from $5.00 to $3.50.



The two exhibits below display cumulative tax credit certifications for years 2014-2019 and for just 2019 certifications. As displayed, credit certification has been concentrated amongst a few entities. Cumulatively, for years 2014-2019 about half of all credit certifications (by amount of credit certified) were certified to one entity with a bit over 85% of all certifications being certified to four entities. In years 2014-2019, a cumulative total of 27 entities were certified for the credit and a total of 241 credit certifications were issued. In 2019, four entities received credit certification with 75% of the credit by value going to a single entity. The credit is available to a bovine manure producer or collector, but the credit can only be claimed once for each wet ton of bovine manure. According to the Oregon Department of Energy, as of 2018 Oregon had nine anaerobic digesters located on farms in Oregon, though four were not in operation (Oregon Department of Energy, 2018).



A body of literature exists regarding anerobic digesters. What follows is a brief summary of literature relevant to the policy purpose of Oregon's bovine manure tax credit. Anerobic digesters are in use throughout the world though the literature discussed here is focused on the U.S. market.

Anerobic digester systems capture methane from lagoon or pit manure storage facilities. The captured methane can be used to generate electricity or heat or may also be burned directly (a practice referred to as flaring). Manure is collected and transported to the digester where water, nutrients, and heat are adjusted to optimize the output of methane. In addition to methane, digestion byproducts can also be of value in such uses as fertilizer, animal bedding and amendments to soil.

Multiple factors can influence the financial viability of digester system installation and operation. According to one EPA study of market opportunities for biogas recovery,

> *Profitability depends on the ability to recover capital and operating costs at a reasonable rate of return and generate a long-term income stream. Experience has shown that the profitability of biogas systems depends on the size of the operation, the method of manure management, and local energy costs. (U.S. Environmental Protection Agency, 2018)*

The EPA report (U.S. Environmental Protection Agency, 2018) found that a positive financial return for construction, operation and maintenance of a digester system is most likely at dairy operations with milking herds of at least 500 cows. Size is important in that sufficient size of cattle operation allows for a high frequency in collection of manure, which minimizes loss of biodegradable organic matter that is converted into biogas through the digestion process (U.S. Environmental Protection Agency, 2018). Energy costs are also of importance in that an operating digester can offset on-farm electricity use and provide a source of heat for on-farm use (U.S. Department of Agriculture: Economic Research Service, 2011). Additionally, an operating digestor may be able to sell excess electricity to the local electric utility. Upgrading biogas to pipeline-quality natural gas is also a possible revenue source (U.S. Environmental Protection Agency, 2018).

Smaller cattle operations are generally considered to be less financially feasible locations for on-farm digesters absent certain market and/or farm conditions. In certain instances, using produced biogas for on-farm energy offsetting purposes can be economically advantageous, especially in remote settings where energy costs are higher (U.S. Department of Agriculture: Natural Resources Conservation Service, 2007). Research suggests that instituting cost sharing approaches can increase the financial viability of smaller scale operations. In one study, researchers found that digesters systems can be made financially viable on smaller operations of 250 cow dairies when 50% cost sharing was available (Klavon, Lansing, Moss, & Felton, 2013).

Whether it is referred to as cost sharing, incentivizing, or subsidizing, various forms of intervention are or have been available/used to modify the financial circumstances in which digesters are constructed and operated. A prominent program is the U.S. Department of Agriculture's (USDA) Rural Energy for America Program (REAP) which provides guaranteed loan financing and grant funding to agricultural producers and rural small businesses for renewable energy systems or to make energy efficiency improvements.[65] Additionally, various incentives are made available by individual states.

One study examined the effectiveness of U.S. state-level incentives promoting the adoption of anaerobic digester systems. Study authors Sam, Bi and Farnsworth looked at the adoption rate of digester systems in 38 states over the period of 2002 to 2014. In addition to the previously discussed importance of farm

[65] Other USDA identified programs include: Conservation Loan program, Value-Added Produce Grant and the Environmental Quality Incentives Program along with energy audit/feasibility studies https://www.usda.gov/media/blog/2010/11/18/usda-offers-funding-help-farmers-turn-manure-energy.

operation size, manure management, and electricity costs, the authors found that various forms of cost-offsetting can impact the construction and operation of anaerobic digesters (Sam, Bi, & Farnsworth, 2017). In the numerous states that Sam et. al. used in their analysis it was found that states often utilized multiple policy interventions to incentivize the construction of anaerobic digesters. This multi incentive policy approach can make it difficult to isolate the effectiveness of a single policy. The authors generally found that performance-based incentives and state adoption of renewable portfolio standards (RPS) increased adoption of anaerobic digester systems in a state (Sam, Bi, & Farnsworth, 2017).

Research has also indicated that carbon offset programs have the potential to positively impact the construction and operation of anaerobic digesters. This is accomplished as carbon offset programs offer another positive financial return for operating digesters.[66] One general theme from conducting the literature review is the finding that a market with a known demand for energy produced by anaerobic digesters can stabilize future financial returns thereby increasing the financial attractiveness of constructing and maintaining digesters. Authors Key and Sneeringer found that financial returns from a carbon offset market can sufficiently alter the potential profitability of a digester leading to increased construction and operation of such digesters (Key & Sneeringer, 2011). The authors did note that

> *Larger operations would be more likely to adopt a digester, and likely would earn substantially higher profits on average than smaller operations. Hence, introduction of a carbon market in a region could enhance existing economies of scale in production and result in further concentration of production on the largest operations. (Key & Sneeringer, 2011).*

Other States

A myriad of related programs and incentives exist nationally and in other states that influence the construction and operation of anaerobic digesters in the U.S. The U.S. Environmental Protection Agency (EPA) maintains a website, AgSTAR, that promotes the use of biogas recovery systems to reduce methane emissions from livestock waste. AgSTAR "assists those who enable, purchase or implement anaerobic digesters"... and "provides information and participates in events to create a supporting environment for anaerobic digester implementation" (About AgSTAR, 2021). AgSTAR functions as a hub for information relating to anaerobic digesters including information on building and operating digesters along with acting as a source for identifying various state and national programs providing financial incentives. Related federal programs include Conservation Loan program, Rural Energy for America Program (REAP), Value-Added Produce Grant, and the Environmental Quality Incentives Program (USDA Offers Funding To Help Farmers Turn Manure into Energy, 2017).

Digester incentives can generally be categorized into four groups: grants, loans, tax credits & exemptions, and production incentives.[67] States often will incorporate multiple incentives that may also be part of a larger renewable energy policy goal (Sam, Bi, & Farnsworth, 2017).[68] California provides a case study in incorporation of multiple incentives and regulations. California's Dairy Digester Research and Development Program (DDRDP) awarded $183.4 million in grants to 108 dairy digester projects starting in 2014 through 2019 (Dairy Digester Research and Development Program, 2020). Under the

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[66] A carbon offset market allows those that reduce methane emissions to sell such reductions or receive compensation in another form.
[67] Production incentives are financial payments, usually on a dollar amount per quantity (e.g. - per kilowatt hour, per wet ton of manure).
[68] Authors examined 38 states in their study related to state anaerobic digester incentives.

DDRDP, grants can equal up to 50 percent of total project costs (limited to $3 million). In addition to grant funding, two California policies, Cap and Trade, and the Low Carbon Fuel Standard, provide further financial incentives for construction and operation of anaerobic digesters (AcMoody & Sousa, 2020). All three programs contribute to California's legislated goal of reducing dairy manure methane emissions by 40% below 2013 levels.

Employee Training in a Qualifying County

ORS 315.523	Year Enacted:	2017	Transferable:	No
	Length:	1-year	Means Tested:	No
	Refundable:	No	Carryforward:	3-years
TER 1.404	Kind of cap:	None	Inflation Adjusted:	No

Policy Purpose

The Employee Training in a Qualifying County tax credit was enacted as part of HB 2066 (2017 omnibus tax bill) though the credit was originally introduced in HB 3206 (2017).[69] According to the revenue impact statement, the ***policy purpose of the tax credit is to increase participation in qualified employee training programs.*** The introduced version of HB 3206 proposed six new tax credits and modifications to two existing credits. The underlying purpose of the introduced version of the measure as discussed during the public hearing was centered on the encouragement of economic development in Klamath County through the leveraging of the County's unique qualities. These discussed unique qualities included Kingsley Field Air National Guard Base, the Oregon Institute of Technology (OIT), and Klamath County Community College. Much of the public hearing testimony centered on the importance of OIT students and finding ways to encourage such students to stay and work in Klamath County following graduation.

Description

The tax credit is available to personal and corporate income taxpayers located in a qualifying county who establish and implement an employee training program in collaboration with a local community college. The credit is equal to twelve percent of the taxpayer's expenses to establish and implement the employee training program. The credit is non-refundable but unused credit amounts can be carried forward for up to three years. The term 'employee training program' is not defined in statute but contextual interpretation suggests employee training program is synonymous with apprenticeship and occupational, and employment skills development programs currently available at community colleges in Oregon.

To be a qualifying county, the following seven characteristics must all be met:

- 60,000 < Population < 80,000
- Located outside Portland Metropolitan Area Regional Urban Growth Boundary (UGB) and UGB of cities with populations of 30,000 or more
- Annual economic development budget of $500,000 or greater
- Unemployment rate (UR) at least 1.5 percentage points greater than state UR rate
- Party to agreement with institute of higher education to coordinate efforts to promote enterprise throughout the county
- Site of a base or installation of the Armed Forces that employees at least 750 civilian and military personnel
- Has access to Internet service with the minimum connection speed required to effectively conduct electronic commerce.

[69] The tax credit was contained in HB 3206 (2017) and passed out of the House Chamber in 2017. While HB 3206 was in the Senate Finance and Revenue Committee at time of legislative adjournment, the credit was enacted by HB 2066.

The taxpayer is required to maintain records sufficient to prove the taxpayer's eligibility for the credit and preserve such records for at least five years. No centralized authority is responsible for determining or certifying eligibility for the credit. As enacting legislation did not specify a tax credit sunset date, ORS 315.037 requires the credit to apply for a maximum of six tax years beginning with the initial tax year for which the credit is applicable. As the credit first became available beginning with tax year 2017, the credit will sunset following the 2022 tax year.

Policy Analysis

Only two counties (Coos & Klamath) in Oregon meet the county population requirements. The additional six requirements ensure Klamath County is the only likely county to qualify. Analysis of audited financial statements for Klamath County indicate Klamath County did not meet the minimum economic development budget of $500K or greater in fiscal years 2017-18, 2018-19 or 2019-20. Initial unemployment data for calendar year 2020 indicates the unemployment rate in Klamath County is not 1.5 percentage points greater than corresponding statewide unemployment rate. For these reasons, it appears no county has met the requirement to be a qualified location in which a taxpayer may qualify for an employee training tax credit.

Use of the tax credit has been minimal with fewer than ten taxpayers claiming the credit in tax years 2017 or 2018. Total cost of the credit through TY 2018 is less than $50,000.

Room for improvement exists in the structural design of this tax credit. Administration of the tax credit could benefit from a designated certifying authority that determines county and taxpayer qualification. Terminology could also be further defined and awareness & outreach regarding the credit could be improved.

No central authority exists to determine and certify county or taxpayer credit eligibility. Often, tax credits designed to incentivize a particular behavior designate a central authority to administer and certify the credit before forwarding such certification data to the Oregon Department of Revenue.

Tax return instructions[70] for claiming the credit specify the statutory requirements that must be met by the taxpayer. However, the definition of "costs to establish and implement the employee training program" are not specified[71] leaving taxpayers to determine such costs (though sufficient records are required to be maintained). Instructions for determining an eligible county are also specified in tax return instructions though no county is listed as a qualified county and the stated requirements to be met do not include the minimum economic development budget of $500K or greater. This leaves the burden on the taxpayer to determine whether they are an employer located in a qualified county.

No outreach or dissemination of credit information is known to have occurred following enactment of this credit. Officials at Klamath Community College (KCC) were initially unaware of the existence of the credit. KCC does offer credited courses and training programs that likely meet the larger definition of employee training.[72] These programs are not unique to KCC but are prevalent at Oregon community colleges. Based on conversations with KCC, it is likely that KCC has worked with employers in the past to provide employee

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[70] Detailed instructions for claiming the credit are contained in Publication OR-17. For this report, instructions contained in the 2019 OR-17 publication are referenced.
[71] These terms were not defined in statute or required to be defined by rule.
[72] Examples include: work force innovations, SNAP & TANF trainings, GED programs, certificate programs.

training programs and will continue to do so in the future regardless of credit availability (Massie, 2020). Following communications with KCC in preparation of this report, use of the credit could increase in later years as overall awareness of the credit expands.

A CCH AnswerConnect search identified a number of other states that offer a somewhat similar tax credit. The identified states have credits designed for employee training costs incurred at a community college or similar (non-university) public higher education provider. The following list provides a general overview of various policy components of the other state credits.

- Linked to community college or equivalent, sometimes to junior colleges
- Credit is often a percentage of costs, possibly limited by employee, total limit per employer, possible overall limit for all credits issued in the state
- Some credits are specific for retraining of employees (in response to economic downturns or changes in industry labor demand)
- Limited to employers with fewer than specified number of employees
- Limit credit availability to specified employer sectors (e.g. manufacturing, processing, warehousing/distribution, wholesaling and research and development)
- Limit credit to types of trainings provided (costs associated with job specific training rather than more general transferable skills training) or specific to apprenticeship education expenses
- Additional credit value if trainee lives in an underserved area or is employed in underserved area (also referred to as economically distressed area)
- Require documentation (e.g. documentation of costs, type of training received, hours/duration of training, location, etc.).

Similar Incentives Available in Oregon

The Legislative Fiscal Office identified five direct spending programs that shared some level of policy relationship to the credit. The five spending programs along with each program's 2019-21 legislatively adopted budget amount is detailed in the table below.

	2019-21 Legislatively Adopted Budget ($M)			
Direct Spending Program	***General Fund***	***Lottery Funds***	***Other Funds***	***Federal Funds***
Apprenticeship and Training Division	$2.9	$0.3	$2.7	
Public Universities Support Fund[1]	$29.4			
Community College Support Fund[1]	$9.5			
Workforce Investment and Opportunity[2]				$3.4
Workforce Programs	$0.7			

[1] Amounts reflect fiscal year 2020, dollars directed to KCC & OIT, may include regionally allocated dollars

[2] Amounts reflect program year 2020 and funds dedicated to 10 county region that includes Klamath County

The Apprenticeship and Training Division of the Oregon Bureau of Labor and Industries conducts regular compliance reviews of the local committees to ensure that apprentices are being treated fairly and are receiving the best possible training. The Division also works in partnership with educators, employers, and students. This includes cooperative efforts with school-to-work programs to ensure that adult apprenticeship standards are connected to core competencies identified at the high school level.

The skills development programs may overlap with the tax credit with somewhat similar expected outcomes and goals for some programs found at the Oregon Institute of Technology. In addition, the

Higher Education Coordinating Commission is the state agency responsible for coordination of workforce development program. There are some General Fund programs related to workforce development such as Work Experiences and Competitiveness, but the primary set of programs are authorized under the federal Workforce Innovation and Opportunity Act or WIOA. Federal WIOA program funds are distributed to states and in Oregon they are further distributed to local Workforce Development Boards. Klamath County is part of the 10 county East Cascade Works which stretches from the Columbia River to the California border through central Oregon.

Oregon Life and Health IGA Assessments

ORS 734.835	Year Enacted:	1975	Transferable:	No
	Length:	5-year	Means Tested:	No
	Refundable:	No	Carryfoward:	None
TER 1.445	Kind of cap:	None	Inflation Adjusted:	No

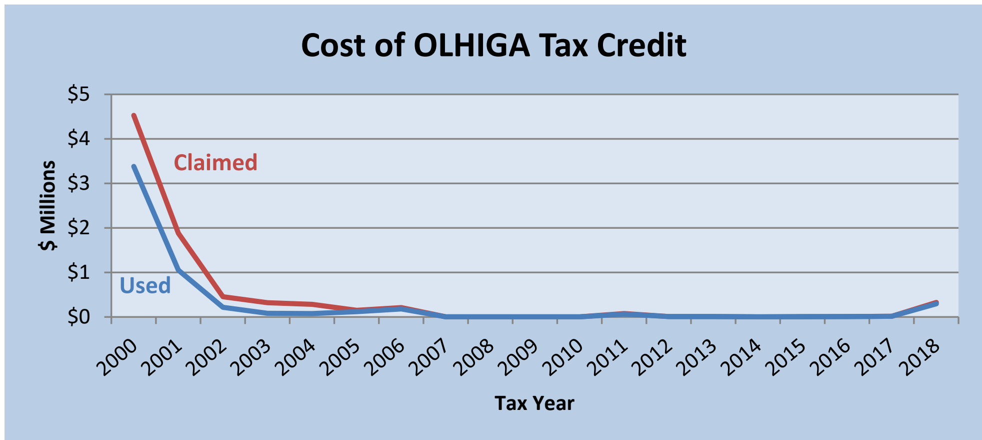
Policy Purpose

Assessments to the Oregon Life and Health Insurance Guaranty Association (OLHIGA) are used to pay claims against insurers who become insolvent. Because the tax credit equals the amount of the assessment (taken uniformly over five years), a reasonable interpretation of its ***policy purpose is to subsidize the cost of insurance guarantee assessments with General Fund resources***.

Description

Insurance companies are allowed a credit against corporate income taxes for certain assessments paid to the Oregon Life and Health Insurance Guaranty Association (OLHIGA). Qualifying assessments are those that are used to cover the cost of claims against insurers who have become insolvent (these are known as class B assessments and are discussed in greater detail in the policy analysis section). Insurers take the credit over five years in an amount equal to 20 percent of the assessment for each year beginning with the year in which the assessment was paid. The credit is nonrefundable and unused credit amounts cannot be carried forward.

The chart below shows the historic use of this credit for tax years 2000 to 2017. Usage of this credit depends on class B assessments levied for insurers that have become insolvent. As shown in the chart, this credit has been rarely used in recent years as OLHIGA assessments have been limited.



Policy Analysis

The Oregon Life & Health Insurance Guaranty Association was established in 1975 and is composed of all insurers licensed to sell life insurance, accident and health insurance, and individual annuities in Oregon. Membership is mandatory. In the event an insurer becomes insolvent, the Association pays claims to the policy beneficiaries. The cost of such claims is recouped by a matching assessment paid by each participating insurer. The insurers are then allowed to claim an annual corporate income tax credit that is equal to 20 percent of the assessment. The credit may be claimed for five years so that the entire assessment is covered.

The net effect of this credit structure is that General Fund resources are used to pay for class B assessments. As the credit is nonrefundable and cannot be carried forward, ability to use the credit depends on the particular circumstances of the insurer in each tax year. Credits cannot be used to reduce Oregon's corporate minimum tax which further reduces the potential use of this credit. For these reasons, only part of the class B assessment cost is ultimately shifted to the General Fund. If the intent is to shift all costs of such assessments to the General Fund, then the credit may need to be modified to become refundable or allowed to be carried forward.

The decline in the number of claimants that occurred following the early 2000s was due to fewer insurance companies slipping into insolvency and, subsequently, no assessments being imposed. Beginning in October of 2017 and through March of 2020, four assessments totaling nearly $8.8 million were levied for Penn Treaty Network America which was placed in liquidation in March of 2017. As a result, usage of this credit has increased beginning with the 2018 tax year. While $8.8 million in assessments have been levied, actual use of the credit will depend on individual insurers and their ability to offset existing tax liability with the credit. Historic use of the credit suggests about 65 percent of the credit claimed is used to reduce tax liability, though the recent size of assessments could reduce credit usage.

A direct appropriation could be advantageous in that it would avoid tax liability being a limiting factor for some insurers without sufficient tax liability to fully claim the credit. However, as class B assessments occur irregularly and amount of such assessments can vary substantially, allocating resources for a direct appropriation could be cumbersome. By contrast, the existence of a tax credit can be more flexible and responsive to assessments.

The current statutory framework of the tax credit sunset does not allow for the remaining years of a past assessment to be claimed. As the credit is taken over five years (20 percent of assessment each year) if the credit is allowed to sunset it could limit a taxpayer's ability to claim up to 80 percent of the remaining outstanding assessment levied prior to the credit's sunset date.

It appears that a majority of other states offer some kind of similar tax offset for guaranty fund assessments. In many states, insurance companies are subject to a premium tax instead of an income tax, so the offset would be against that tax and would not be an income tax credit, per se.

Other Issues

The administrative costs of this tax credit are born by the DCBS, the DOR, and insurance companies. Given the infrequent use of the tax credit, these costs are likely to be marginal and vary over time.

Appendix A: Legislative History

This appendix contains the legislative history for each tax credit included in this report. Statutory changes can be technical in nature or policy oriented. Text in bold identifies changes that are more policy oriented.

Statute	Tax Expenditure (TE) Name and TE Number (Number aligns with Governor's Tax Expenditure Report)				
315.613-619	**1.408 Rural Medical Providers**				
	Year	**Bill**	**Chapter**	**Section(s)**	**Policy**
	1989	**SB 438**	**893**	**2-6a**	**Created: $5,000 for ten years if 60% of practice is rural | Available TYs 1990-93 | For physicians, physician assistants and nurse practitioners**
	1991	**HB 2162**	**877**	**16-18**	**Modify hospital requirements | Extended to 1/1/95 | Clarify time calculation | Add certified registered nurse anesthetists**
	1995	**HB 2255**	**746**	**36-38**	**Establish qualification deadline of 12/31/01 | Add podiatric physicians & surgeons and**
	1997	**HB 3140**	**787**	**3**	**Add optometrist (up to five by 7/1/99)**
	1999	**SB 530**	**459**	**1**	**Remove 10-year limit | Add rural critical access hospitals to qualification**
	1999	HB 2267	**582**	10	Change registered to licensed
	1999	SB 1093	**802**	**4**	Grammar change
	2001	HB2206	**509**	**12**	Remove 2001 eligibility deadline | Modify B hospital requirements
	2003	HB 2424	**46**	39-40	Internal reference changes
	2005				Moved from ORS 316.143/144/146 to 315.613/616/619
	2009	HB 2009	**595**	205	Reference change
	2009	**HB 2067**	**913**	**25**	**Add sunset of 1/1/2014 and grandfather clause if eligible in 2013**
	2013	**HB 3367**	**750**	**10-12**	**Extend sunset to 1/1/2016 | Change 60% requirement to 20 hrs./wk. | Add certain rural referral centers | Add eligibility requirement pertaining to Medicare and medical assistance patients being served**
	2015	**HB 2171**	**701**	**18-19**	**Extend sunset to 1/1/2018 | Modifies credit to $3,000-$5,000 depending on distance from a population center**
	2015	HB 3396	**829**	7-7a	Extend sunset to 1/1/2018 | Statutory language and definitional modifications
	2016	SB 1507	29	1	Technical corrections
	2017	**HB 2066**	**610**	**13-14**	**Extend sunset to 1/1/2022 | Create income cap of $300,000 (non-surgeons) | Limit credit to no more than 10 years per taxpayer**
	2019	**HB 2847**	**495**	**1**	**Expands list of hospitals whose medical staff may qualify for credit**
315.624	**1.449 Oregon Veterans' Home Physician**				
	Year	**Bill**	**Chapter**	**Section(s)**	**Policy**
	2007	**HB 3201**	**843**	**3,9**	**Created with 1/1/12 sunset**
	2009	HB 2067	913	52	Extend sunset to 1/1/2016
	2015	HB 2171	701	12	Extend sunset to 1/1/2022
315.264	**1.425 Working Family Household and Dependent Care**				
	Year	**Bill**	**Chapter**	**Section(s)**	**Policy**
	2015	**HB 2171**	**701**	**3,5**	**Created credit through combination of policies contained in expiring 'Child and Dependent Care' & 'Working Family Child Care' credits | Established sunset of 1/1/2022**
	2017	**SB 162**	**638**	**2**	**Extends to non-married taxpayers | Limits expenses to income earned in OR | Requires earned income to claim credit**
	2018	**HB 4028**	**111**	**7**	**Limits amount of employment-related expenses to lesser amount attributable to either spouse on a combined return**
315.271	**1.427 Individual Development Account Contributions**				
	Year	**Bill**	**Chapter**	**Section(s)**	**Policy**
	1999	**HB 3600**	**1000**	**12**	**Enacting legislation | Credit equal to lesser of: 25% of donation, $25,000**
	2001	**HB 3391**	**648**	**1**	**Modified credit equal to lesser of: 75% of donation or $75,000**
	2007	HB 2094	765	1,98	Add sunset of 1/2/2016 | Refined definitions | IRC update
	2009	HB 2067	913	48	Extend donation sunset to 1/1/2016
	2015	**HB 2171**	**701**	**7-8**	**Modified credit equal to percentage of donation as determined by fiduciary organization, not to exceed 70% | Limited total credits per tax year to $7.5 million | Extend sunset to 1/1/2022**
	2016	**SB 1507**	**29**	**2**	**Total credit to a taxpayer per tax year limited to $500,000**
	2019	**HB 2164**	**579**	**49a,49b**	**Credit donation percentage limited to 90%, applicable beginning with TY 2019**

Statute	Tax Expenditure (TE) Name and TE Number (Number aligns with Governor's Tax Expenditure Report)

315.213 (318.031) — **1.426 Contributions to the Office of Child Care**

Year	Bill	Chapter	Section(s)	Policy
2001	**HB 2676**	**674**	**10,13**	**Created with 1/1/2007 sunset**
2003	**HB 3184**	**473**	**8-9**	**Removed "or a selected community agency" (limit contributions to CCD) | Disallow deduction and credit | Extend sunset to 1/1/2009**
2007	HB 2810	880	1	Extend sunset to 1/1/2013
2009	HB 2067	913	47	Extend sunset to 1/1/2016
2013	HB 3234	624	79	Change Child Care Division to Office of Child Care
2015	**HB 2171**	**701**	**20,25**	**Limit credit to 50% of amount contributed beg. TY 2016 | Modify statutory requirement regarding distribution of funds | Extend sunset to 1/1/2022**

316.099 — **1.407 Child with a Disability**

Year	Bill	Chapter	Section(s)	Policy
1985	**HB 2736**	**531**	**2**	**Enacting legislation | Department of Education adopts rules**
1987	HB 2225	293	15	Added "visually impaired" and "hearing impaired" to definition of "handicapped child"
1989	SB 368	224	50a	Replaced "handicapped" with "disabled"
1989	HB 2305	491	1	Replaced "Department of Education" with "State Board of Education"
1993	HB 3026	777	7	Added "or as having serious emotional disturbance or traumatic brain injury" to definition of "disabled child"
1993	HB 2443	813	6	Added "or as having serious emotional disturbance or traumatic brain injury" to definition of "disabled child"
1999	SB 363	989	29	Deleted "serious" from the 1993 change
2001	HB 2777	114	35	Changed "autistic" to "autism"
2005	SB 31	832	28	Tied to IRC 152 for definition of "child"
2007	SB 83	70	84	Changed "disabled child" to "child with a disability"
2009	HB 2067	913	39	Placed sunset of 1/1/2016
2013 S.S.	**HB 3601**	**5**	**2**	**Eliminated all personal exemption credits for taxpayers with AGI > $200K (J), $100K (S)**
2014	**SB 1534**	**114**	**8**	**Retroactively (beginning TY 2013) reinstated credit for all taxpayers regardless of AGI**
2015	**HB 2171**	**701**	**16-17**	**Extended sunset to 1/1/2022 | Beginning TY 2016, eliminated credit for taxpayers with AGI > $100K regardless of filing status**

316.752-771 — **1.410 Severe Disability**

Year	Bill	Chapter	Section(s)	Policy
1979	**HB 3080**	**554**	**2-5**	**Enacting legislation**
1985	HB 2182	345	10-12	Replaced 'exemption' with 'credit' | Formerly 316.135, 316.136, 316.137, 316.138
1987	HB 2409	158	50	Working change for common usage
1987	HB 2225	293	28-30	Adds 'exemption' between 'personal' and 'credit'
1989	SB 368	224	51	Working change for common usage
1995	HB 2200	54	12	Allows DOR to waive the substantiation requirement
2007	SB 83	70	85-87	Change 'is severely disabled' to 'has a severe disability'
2009	HB 2078	909	40	Adds tie to IRC 72(m)(7), definition of disabled
2009	HB 2067	913	42-43	Add sunset of 1/1/16 to 316.758 & 316.765 (taxpayer and spouse)
2013	**HB 3601**	**5**	**2**	**Due to connection to personal exemption statute , credit eliminated for taxpayers with AGI > $100,000 (Single), $200,000 (Joint)**
2014	**SB 1534**	**114**	**9**	**Eliminated income based qualification for credit, retroactive to TY 2013**
2015	**HB 2171**	**701**	**14-15**	**Extended sunset to 2022 | Limited credit to taxpayers with AGI < $100,000**
2017	HB 3363	409	7	Non-substantive statutory language modification

Statute	Tax Expenditure (TE) Name and TE Number (Number aligns with Governor's Tax Expenditure Report)

315.640 — **1.422 Public University Venture Development Fund**

Year	Bill	Chapter	Section(s)	Policy
2005	**SB 853**	**592**	**5**	**Enacting legislation**
2009	HB 2067	913	27	Added sunset of 1/1/2016
2013	HB 3367	750	42-43	Clarified sunset such that it applies to the first year of the 3-year credit
2016	**HB 4072**	**31**	**2**	**Reinstated and extends sunset to 1/1/2022 | Modified credit maximum from $50K to $600K taken over three years with 3 year carryforward | Modified university allotment**
2019	2141	483	15	Requires universities to share tax credit eligibility information with DOR

315.176 — **1.430 Bovine Manure for Biofuel**

Year	Bill	Chapter	Section(s)	Policy
2017	**HB 2066**	**610**	**11**	**Enacting legislation | Credit spun off from Biofuel credit | Credit amount set at $3.50 per wet ton of manure | Certified by Dept. of Ag. | Specified transferability | Limited tax year credit claimants to $5 million | Applicable to TYs 2018 through 2021**
2018	HB 4028	111	1-2	Clarified definition of "bovine manure" | Modified $5 million annual limit to apply to annual certifications issued rather than credits claimed

315.523 — **1.404 Employee Training in Eligible Counties (Klamath)**

Year	Bill	Chapter	Section(s)	Policy
2017	**2066**	**610**	**19**	**Enacting legislation | Credit equal to 12% of taxpayer's expenses to establish & implement employee training program in a qualifying county | 3-year carryforward**

734.835 — **1.445 Oregon Life and Health IGA Assessments**

Year	Bill	Chapter	Section(s)	Policy
1975	**SB 577**	**251**	**14**	**Created**
1995	HB 2855	786	9	Removed 'premium' (change in taxation of insurance companies)
2009	HB 2067	913	50	Added sunset of 1/1/2016
2015	HB 2171	701	13	Extend sunset to 1/1/2022

Appendix B: HB 3542 Tax Credit List

The 2015 Legislature enacted HB 3542 which requires certain information to be included in this report. Specifically, tax credits that have a revenue impact that exceeds the estimate in the most recent revenue impact statement. The table below contains a list of the tax credits that were extended between 2013 and 2018, along with the estimated impact for tax year 2018 and the actual impact as reported on tax returns.

Estimates are broken down into two components - base and change. Some credits are claimed over multiple years or have carryforwards. For example, the Affordable Housing Lender's credit is claimed over up to 20 years. Even if the credit were to sunset, there would still be an impact on tax collections for up to two decades. The base estimate represents a baseline estimate of the revenue impact in 2018 that would have occurred without any policy change. If the base amount is zero, then the credit is a single year credit and has no carryforward.

The change estimate is the estimate directly attributable to the change in policy. The base and change estimates are added together to arrive at the total estimate. This total estimate is the full cost of the policy, baseline plus policy change.

Tax Credit Costs: Estimates vs Actuals

Tax Year 2018, $Millions

	Year of	**Estimates**			**Actuals**		
Tax Credit	**Estimate**	Base	Change	Total	Total	Difference	
Agriculture Workforce Housing Construction	2013	$0.0	$0.5	$0.5	$2.9	$2.4	445%
Employer Provided Scholarships	2013	$0.0	$0.1	$0.1	$0.0	-$0.1	-100%
Volunteer Rural EMS Providers	2013	$0.0	$0.2	$0.2	$0.1	-$0.1	-36%
Manufactured Dwelling Park Closure	2013	$0.0	$0.1	$0.1	$0.0	-$0.1	-100%
Political Contributions	2013	$0.0	$6.9	$6.9	$4.9	-$1.9	-28%
Oregon Cultural Trust	2013	$0.0	$3.5	$3.5	$3.8	$0.3	10%
Certain Retirement Income	2013	$0.0	$0.9	$0.9	$0.8	$0.0	-1%
Crop Donations	2014	$0.0	$0.7	$0.7	$0.2	-$0.4	-65%
Working Family Household & Dependent Care	2015	$0.0	$31.4	$31.4	$31.9	$0.5	2%
IDA Contributions	2015	$0.1	$7.1	$7.2	$6.5	-$0.7	-10%
Oregon Veterans' Home Physician	2015	$0.0	<50K	<50K	<50K	<50K	N/A
Oregon Life & IGA	2015	$0.0	<50K	<50K	$0.8	$0.8	N/A
Severe Disability	2015	$0.0	$5.5	$5.5	$4.5	-$1.0	-18%
Child with a Disability	2015	$0.0	$4.8	$4.8	$4.4	-$0.4	-8%
Office of Child Care Contributions	2015	$0.0	$0.4	$0.4	$0.0	-$0.4	-99%
Earned Income	2016	$46.9	$5.0	$51.9	$48.2	-$3.7	-7%
University Venture Development	2016	$0.0	$0.8	$0.9	$0.9	$0.0	0%
Bovine Manure	2016	$0.4	$3.8	$4.2	$2.7	-$1.5	-37%
Film & Video	2016	$10.0	$4.0	$14.0	$14.4	$0.4	3%
Oregon Affordable Housing Lender	2017	$5.5	$0.0	$5.5	$7.6	$2.1	38%
Rural Medical Providers	2017	$7.2	-$1.0	$6.2	$7.2	$1.0	15%
Fish Screening	2017	<50K	<50K	<50K	<50K	<50K	N/A
Employee Training in Eligible County	2017	<50K	<50K	<50K	<50K	<50K	N/A
Reservation Enterprise Zone	2017	<50K	<50K	<50K	<50K	<50K	N/A
Working Family Household & Dependent Care*	2018	$34.5	-$1.0	$33.5	$31.9	-$1.6	-5%
Opportunity Grant	2018	$0.0	$14.0	$14.0	$9.3	-$4.7	-34%
OR Tax Haven Repatriation**	2018	$0.0	$20.0	$20.0	$19.1	-$0.9	-4%
Total		***$104.7***	***$107.3***	***$212.0***	***$202.0***	***-$10.0***	***-5%***

*Estimate of modification to WFHDC credit made in HB 4028 (2018)

**Comparison of estimate is based on tax year 2017 estimate and actuals (non-disclosure requirements limit 2018 comparison)

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