Excerpted from Research Report No. 2-21, *Tax Credit Review: 2021 Session*, Legislative Revenue Office, January 28, 2021.

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.

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

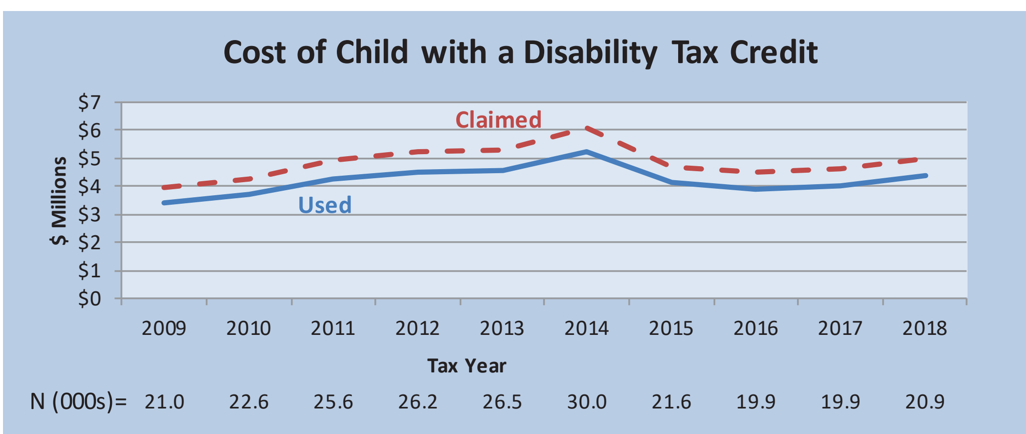
Policy Purpose

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

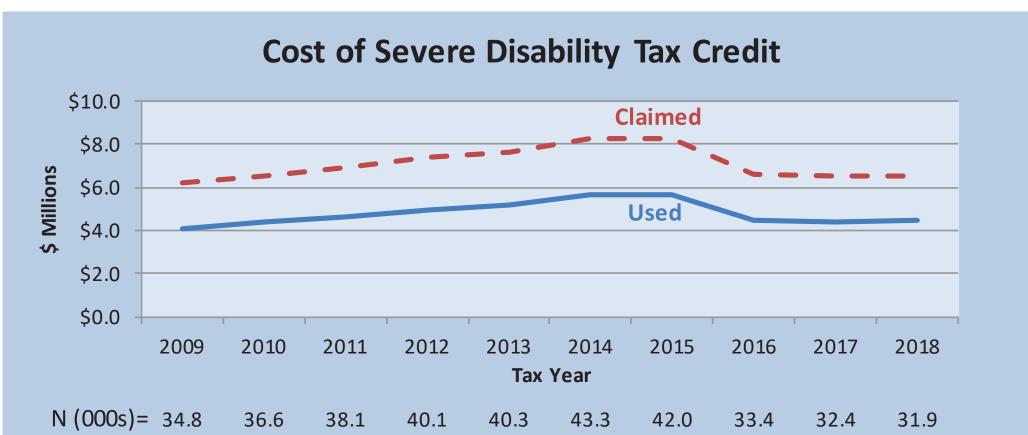
Because this provision is not an incentive to encourage a specific kind of behavior, a reasonable assumption is that the intent is to provide financial relief and offset costs associated with a taxpayer's/spouse's disability.

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.

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