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 2019. In total, there are nine such tax credits. To provide some context, the table below shows the cost to the biennial budget for the last, current, and following two biennia. These estimates are for current law; the declining cost estimates reflect the current sunset dates. The table reflects how this section is structured.

Tax Credit Costs Under Current Law and Costs to Extend Sunset Dates

	Biennium ($M)							
	Cost Under Current Law				Cost to Extend Sunset Date			
Tax Credit	2017-19	2019-21	2021-23	2023-25	2017-19	2019-21	2021-23	2023-25
Employer Provided Scholarships	< 50K	< 50K	< 50K	< 50K	0	< 50K	< 50K	< 50K
Earned Income	104.6	53.4	0.0	0.0	0	54.2	113.3	120.0
Volunteer Rural Emergency Medical Services Providers	0.2	0.1	0.0	0.0	0	0.1	0.2	0.2
Agriculture Workforce Housing Construction	4.8	2.7	0.5	0.3	0	2.0	4.1	4.1
Manufactured Dwelling Park Closure	0.1	0.0	0.0	0.0	0	< 50K	0.1	0.1
Crop Donations	0.4	0.3	0.1	0.0	0	0.2	0.4	0.5
Political Contributions	11.6	5.8	0.0	0.0	0	6.7	12.7	13.5
Oregon Cultural Trust	7.9	4.1	0.0	0.0	0	4.2	8.6	9.0
Certain Retirement Income	1.4	0.7	0.0	0.0	0	0.7	1.3	1.2
Total	***131.0***	***67.1***	***0.6***	***0.3***	***0.0***	***68.0***	***140.6***	***148.5***

The remainder of the report consists of separate reviews for each tax credit. Each review consists of eight subsections: description, policy purpose, beneficiaries, similar incentives available in Oregon, credit effectiveness and efficiency, analysis of potential direct appropriation, administrative & compliance costs and similar credits allowed in other states. The description provides detail on how the tax credit works under current law. The policy purpose is generally not in statute but is based on documentation from implementing or modifying legislation. Generally, the purposes are inferred from historical records. On occasion, Oregon statute provides a clear statement of the policy intent. The policy analysis describes academic research on relevant incentives if available, provides some discussion of the history, and an analysis of available data. Often the primary sources of data are certifications and tax returns. The review of items such as a summary of similar incentives in Oregon and other states and administrative costs conclude each tax credit analysis.

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

Political Contributions

ORS 316.102	Year Enacted:	1969	Transferable:	No
	Length:	1-year	Means Tested:	Yes
	Refundable:	No	Carryforward:	None
TER 1.446	Kind of cap:	None	Inflation Adjusted:	No

Description

The political contributions tax credit provides a credit for voluntary contributions in money made to:

- major or minor political party
- candidate for federal, state or local elective office, or
- political action committee.

Amount of the credit allowed is equal to the lesser of the total contribution not to exceed $100 for a joint return or $50 for all other return types, or the tax liability of the taxpayer. Taxpayers with adjusted gross incomes greater than $200,000 (joint return) or $100,000 (all other return types) may not claim the credit. Taxpayers are required to keep, as part of their personal tax records, receipts from the candidate or organization to which the donation was made.

Policy

A specific policy purpose statement regarding the employer provided scholarship credit is not contained in statute. Rather, a general policy purpose of the credit can be derived by referencing the relevant legislative committee discussions and deliberations that took place when the credit was enacted and substantively modified.

The political contributions tax credit was enacted in 1969 by HB 1572. The originally enacted credit was equal to lesser of: 50% of the total contribution with a credit maximum of $10 (joint return) $5 (all others) or taxpayer's tax liability. The HB 1572 introduced version proposed maximums of $50 and $25 respectively but caps were reduced by amendment in an effort to reduce prospective reduction in tax revenues (Senate Elections Committee, 1969).[16]

Distilling into a single declaration the supportive statements and testimony made at time of enactment, ***the policy purpose of the political contributions tax credit is to encourage large numbers of people to contribute small amounts of money to political parties and candidates thereby encouraging participation in the political process***. Oregon's Secretary of State at the time, Clay Myers, provided much of the favorable testimony received. The Secretary expressed need to broaden the base and to have more participation in the democratic process. The Secretary felt both candidates and parties needed more money and should get it from a much broader base helping to avoid owing an election or a candidate to a very few contributors. (Senate Elections Committee, 1969)

The original design of the tax credit reflects the underlying intent of the policy purpose as well as potential revenue reduction concerns. Originally providing a 50% tax credit was presented as a way to encourage small donations while limiting the cost of the credit. Utilizing a credit as opposed to other methods such as a deduction was viewed as the most effective way of incentivizing political

[16] Estimated revenue impact of $25 & $50 cap version of legislation was $500,000. Estimated impact of $5 & $10 caps was $100,000.

contributions while minimizing tax impact. Concern about potential loss in revenue resulted in the introduced version's caps being reduced from $25 and $50 to $5 and $10. In light of the reduced caps, the credit was viewed by some legislative members as an experiment in encouraging small contributions with the expectation that following the first taxable year of the credit, the Tax Commission would analyze and report on the usage of the credit thereby allowing the Legislature to contemplate increasing or eliminating the credit in subsequent years. (Senate Elections Committee, 1969)

In February 1973, the Oregon Department of Revenue presented Research Report No. 36-73 which provided reporting and analysis of the political contributions tax credit for tax year 1970. According to the report, usage and cost of the tax credit came in below original revenue loss estimates (Oregon Department of Revenue, 1973). Following the less than expected revenue loss and in an effort to align with a similar federal political contributions tax credit, the credit caps were increased to $12.50 and $25 by HB 2221 (1973) (Senate Revenue Committee, 1973).

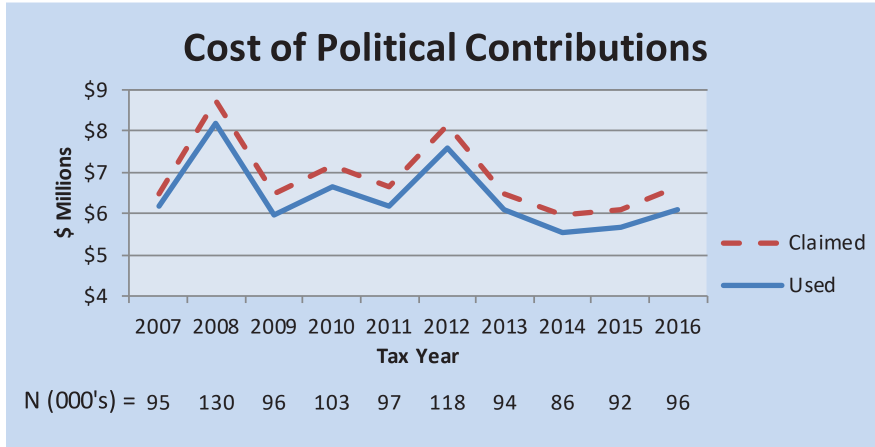
Two substantive changes have been made to the credit since 1973. First, in 1987, HB 2225 increased the amount of the credit to $100 on a joint return and $50 for all other types and made the credit equal to the full amount of the contribution up to the credit limit (previously was 50% of contribution). In 2013, HB 3367 disallowed the credit for taxpayers with federal adjusted gross income (FAGI) greater than $200,000 (joint) or $100,000 (all other filer types). The 2013 change occurred during a period when the Legislative Assembly was contemplating means testing many income tax credits and also at a time when balancing the "spending" needs of the various tax credits scheduled for sunset review during the 2013 legislative session was being contemplated (Allanach, 2016). The disallowance of the credit to taxpayers above the FAGI limits adjusted the policy purpose of the credit by eliminating the potential to encourage small contributions of money to candidates, political parties and political action committees by taxpayers of relatively higher income.

Beneficiaries

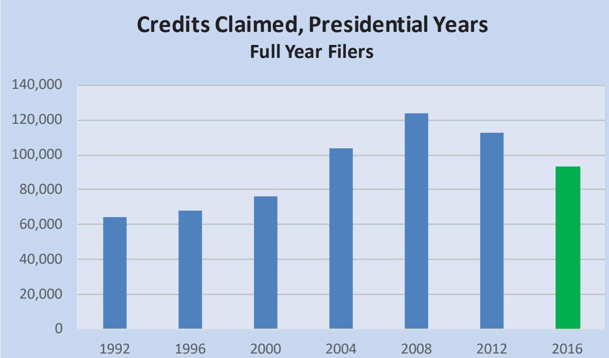
The immediate beneficiaries of the political contributions tax credit are individuals who make qualified political contributions. As the maximum credit amount is fixed at $100 on a joint return of $50 for all others, taxpayers making contributions greater than the fixed credit cap will potentially have a portion of their contribution offset by the credit. For taxpayers that make political contributions equal to or less than the credit cap, the political contribution is potentially fully offset by the credit. The credit cannot reduce a taxpayer's tax liability below zero (aka, nonrefundable credit) requiring a taxpayer to have positive pre-refundable tax credit liability.[17] House Bill 3367 of 2013 made the credit unavailable to taxpayers with federal adjusted gross income (FAGI) in excess of $200,000 for joint filers and $100,000

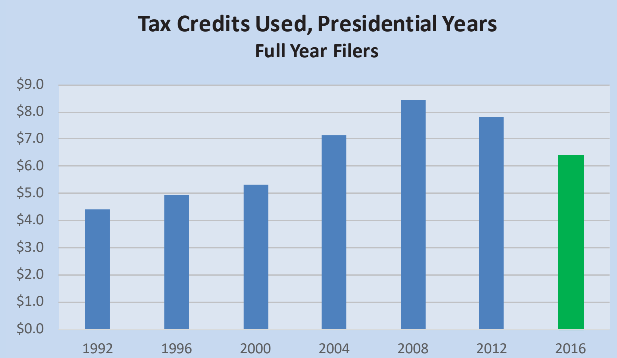
[17] This differs from taxpayers with positive net tax liability. For example, a taxpayer with negative net tax liability due to the earned income tax credit (EITC) may have positive pre-EITC tax liability. This positive tax liability would first be offset by a standard credit such as the political contributions tax credit prior to the EITC being applied.

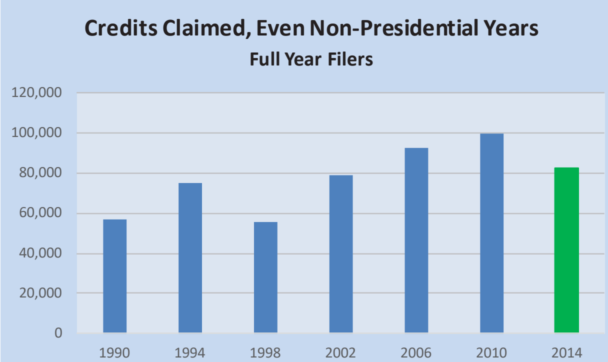
for all other filer types. The FAGI limitation became effective beginning with the 2014 tax year and was the first substantive modification to the credit since 1987 when credit maximums were increased to the present $50 & $100.

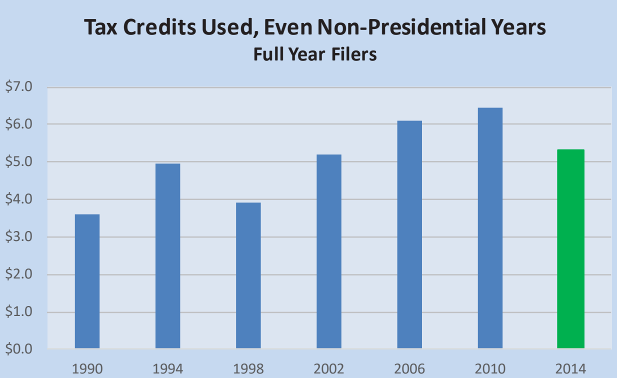


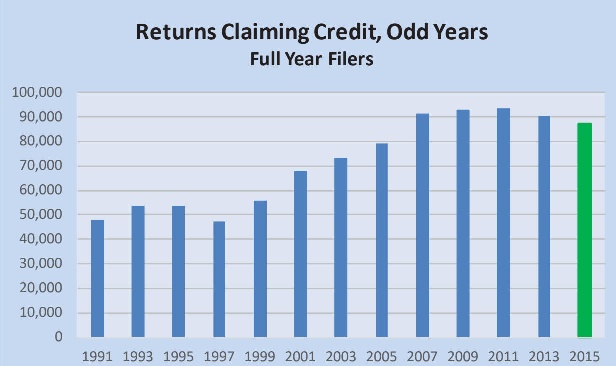
The chart to the right displays the credit amount claimed, amount used to reduce tax liability and the number of returns on which the credit was claimed for the past ten tax years. For the previous ten tax years, the average number of claimants was about 100,000. The number of credit claimants follows a general pattern with presidential years being peak years followed by even non-presidential years (containing

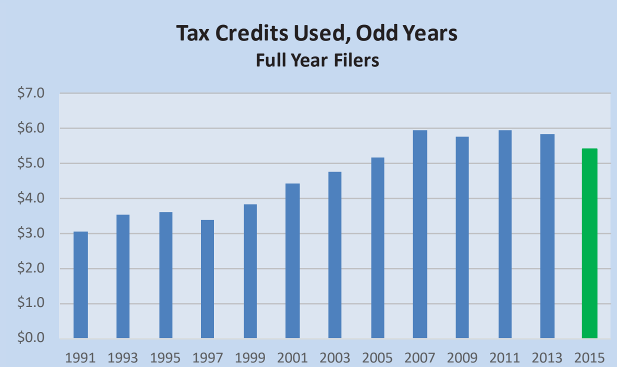












congressional midterms and Oregon's gubernatorial election) and odd years generally having the lowest number of claimants for a particular four-year cycle. The following series of charts display the pattern of credit usage. Columns shaded in green denote figures post imposed FAGI limitations.

As displayed in the following chart, returns claiming the credit as a percentage of all returns has been relatively consistent since tax year 1990 with a positive trend during the 2000 - 2010 period before remaining relatively consistent absent FAGI law changes effective beginning tax year 2014. It is estimated that limiting the credit by FAGI reduced overall use of the credit by about 18%.

The following two exhibits display the amount of credit used to reduce tax liability by taxpayer's federal adjusted gross income and by age of the primary filer on the return.[18] As displayed, taxpayers with FAGI in excess of $100,000 represent about 37% of overall use of the credit. As a percentage of total use, as FAGI increases, so too does overall usage of the credit. As displayed in the table to the lower right, overall use of the credit is most pronounced at ages 55-75.

Credit Amt. Used by AGI Category
TY 2016 | Full Year Filers

AGI (000's)	Used	Pct. of Total
<0	0	0%
0-5	11,000	0%
5-10	60,700	1%
10-15	103,600	2%
15-20	143,700	2%
20-25	170,100	3%
25-30	191,200	3%
30-35	196,700	3%
35-40	197,200	3%
40-45	193,900	3%
45-50	204,500	3%
50-60	439,900	7%
60-70	467,200	8%
70-80	468,300	8%
80-90	474,400	8%
90-100	463,000	8%
100-250	2,201,600	37%
250-500	0	0%
500 +	0	0%
Total	5,986,900	100%

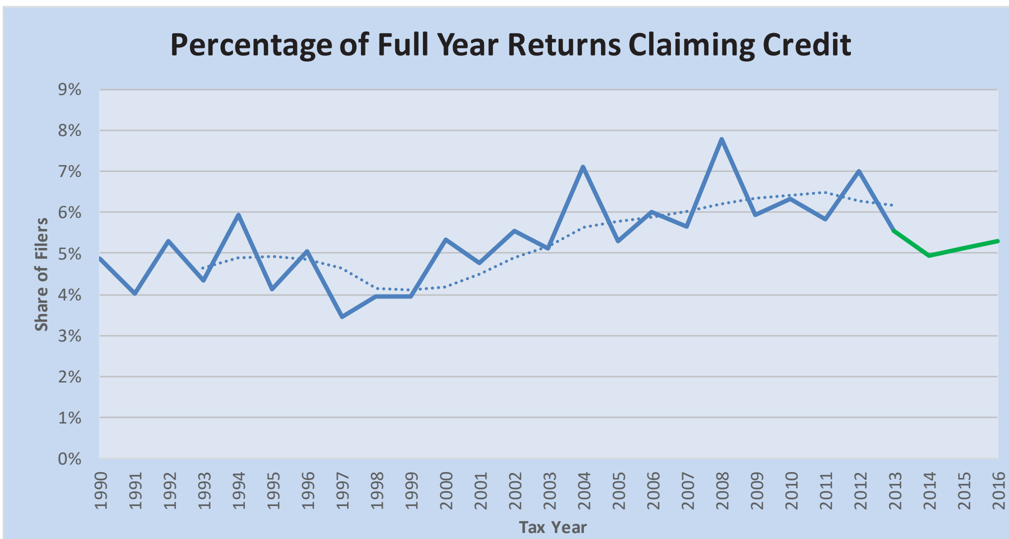
Credit Amt. Used by Age Category
TY 2016 | Full Year Filers

Age	Used	Pct. of Total
0 - 14	500	0%
15 - 19	24,400	0%
20 - 24	115,000	2%
25 - 29	261,500	4%
30 - 34	370,800	6%
35 - 39	434,100	7%
40 - 44	410,700	7%
45 - 49	448,300	7%
50 - 54	462,700	8%
55 - 59	583,800	10%
60 - 64	765,800	13%
65 - 69	816,700	14%
70 - 74	587,700	10%
75 - 79	342,800	6%
80 - 84	199,300	3%
85+	159,700	3%
Unknown	3,000	0%
Total	**5,986,900**	**100%**

[18] For joint returns, primary filer's age corresponds to the age of the first name listed on the return.

Similar Incentives Available in Oregon
No similar programs were identified in Oregon.

Credit Effectiveness and Efficiency
This report identifies the policy purpose of the political contributions tax credit as “to encourage large numbers of people to contribute small amounts of money to political parties and candidates thereby encouraging participation in the political process”. A simple approach to analyze the credit’s effectiveness in light of the assumed policy purpose is to look at taxpayer claimants and use of the credit. The chart below displays the number of full-year resident returns claiming the credit as a percentage of all full-year resident returns for tax years 1990-2016. As displayed in the chart below, returns claiming the credit as a percentage of all returns has been relatively consistent since tax year 1990 with a positive trend during the 2000 - 2010 period before remaining relatively consistent absent FAGI law changes effective beginning tax year 2014.



Two structural factors of the credit limit its use. As previously discussed, in 2013 the credit was modified making the credit unavailable to taxpayers with federal adjusted gross income above $200,000 (joint returns) or $100,000 (all other returns). A second potential limiting factor is lack of tax liability. Taxpayers lacking sufficient tax liability may be able to use a portion or perhaps none of the credit as the tax credit is non-refundable meaning the credit cannot reduce a taxpayer’s liability below zero. Claiming of the credit follows the cyclical election pattern indicating use of the credit aligns in part to general interest/involvement of citizens in the current political environment.

A review of the published literature examining the effectiveness of incentives for political contributions yields some insight. In summary, the existence of incentives does seem to positively influence donation behavior to some extent. Credits have the greatest potential to influence behavior of small contributors, younger adults and on less partisan individuals if those groups are made aware of the credit. Informing and/or encouraging use of tax incentives for contributions yields mixed results. Providing general non-partisan information regarding tax incentives appears less effective than information being provided to targeted populations or by interest groups or political action committees to like-minded members/individuals/constituents etc.

Published in 2005, authors Robert Boatright and Michael Malbin describe the results of two surveys conducted on Ohio residents[19]. One survey was sent to the general public while the second was sent to campaign contributors. The authors concluded:

> Our results indicate that if citizens are made aware of the tax credits, they have the potential to attract donors who are more similar to the general public than the current pool of campaign contributors. Tax credits have the greatest effect on small contributors, on younger adults, and on less partisan individuals.
>
> (Boatright & Malbin, 2005)

In interpreting the surveys conducted by Boatright and Malbin (2005) a few qualifiers should be kept in mind. The authors performed the surveys of Ohio residents in 2002 when Ohio's political contributions tax credit had only been in place for two "on-year" credit cycles.[20] In tax year 2002, slightly less than 1.5% of returns contained filings for the tax credit (far below Oregon's 5-8%). For these reasons, the results of the surveys may be more indicative of the early years of credit availability. A mature credit such as Oregon's may see less response than the Boatright and Malbin (2005) surveys would otherwise suggest.

In 2006, Messrs. Boatright, Green & Malbin published a study that analyzed the impact of using direct mail to inform Ohioans of their state's political contribution tax credit and to encourage contributions of money to political candidates. The upshot of the study was that the direct mailing did result in a slight increase in use of the credit by individuals receiving the mailing, but overall increase in the credit was not cost effective (Boatright, Green, & Malbin, 2006). Perhaps unsurprisingly, the authors found the behavioral response to the mailing differed based upon measurable circumstances of the individual(s) receiving the direct mailed information. The authors also speculated that the manner of outreach to individuals could also influence response as the direct mailings sent were designed in an informative non-partisan manner whereas current and previous work by some of the authors suggest that candidates are the most effective and innovative messengers because they directly benefit from the program (Boatright, Green, & Malbin, 2006).

Published in 2016, Messrs. Schwam-Baird, Panagopoulos, Krasno & Green examined the effectiveness of encouraging political contributions via public matching funds and tax credits. The authors performed three field experiments where nonpartisan information about municipal and state-level incentives for making political contributions was provided to potential donors. The authors found that providing information about matching funds and tax credits had a negligible effect on both the probability that an individual will make a contribution and the amount that the individual donates (Schwam-Baird, Panagopoulos, Krasno, & Green, 2016). The authors were careful to point out that their research did not provide conclusions on the effectiveness of the incentives in actually increasing donations, rather their research was in regard to providing non-partisan information about the incentives.

In 2002, following an examination of state-level political contribution credits, David Rosenberg of the American Enterprise Institute concluded that the evidence indicates that tax credits for political contributions encourage more active participation in the political process by average citizens (Rosenberg, 2002). Rosenberg's conclusions are reached through an examination of users of various

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[19] Similar to Oregon, Ohio's tax credit limit is $50 for individuals and $100 for couples. Ohio's credit is only available for contributions made to candidates, not parties or political action committees.
[20] Ohio's credit was first available in 1995.

state tax credits as opposed to the two aforementioned studies that provided research results based on designed social science experiments.

Analysis of Potential Direct Appropriation

Voucher systems present an alternative proposal to tax credits for encouraging large numbers of small political contributions (Gans, 2014). The idea of a voucher is that every voter is provided with a voucher of a specified amount. The voter then has the ability to allocate their voucher to the candidate, party, etc. of their choosing. The general idea of a voucher program is that by assigning a voucher to each voter, candidates would have an incentive to appeal to as many voters as possible. Potential costs and oversight requirements of voucher/matching systems are often cited as barriers to implementation in addition to disinterest of some in designing a system of publicly funded elections.

Other direct spending options include donor matching systems where donor contributions are matched using public funds (Norden & Keith, 2017). Others have proposed matching systems that match private donations with public donations at ratios greater than 1:1 (Overton, 2012).

Seattle's Voucher Program

Following the approval of initiative petition I-222 (2015), known as the Honest Elections Seattle initiative, the city of Seattle instituted an election voucher program. The purpose of the initiative was to give more Seattle residents the opportunity to have their voices heard, to preserve values of accountability and transparency in Seattle campaigns and to encourage more Seattle residents to support their candidates or consider running for office themselves (Seattle Ethics & Elections Commission, 2017).

The Democracy Voucher Program (DVP) is funded by a 10-year property tax levy of $3 million dollars per year with voucher proceeds available to candidates for Seattle city council positions and the city attorney's position. Residents of the city that are eligible to contribute to political campaigns are eligible to participate in the DVP. Registered voters automatically received four $25 DVP vouchers by mail. Residents can then assign their vouchers to the candidate(s) of their choice by mailing, delivering in person or emailing their voucher. The Seattle Ethics and Elections Commission (SEEC) then distribute the funds to participating candidates. Participant candidates are those that sign a program pledge where candidates agree to rules including: not to accept contributions in excess of $250, abide by campaign spending limits, participate in a minimum of three public debates and agree not to solicit money for or on behalf of any political action committee, political party or organization that will make an independent expenditure for or against any City of Seattle candidate.

In 2017 the voucher program disbursed $1.1 million to candidates with an administrative cost of about $1.0 million. Seattle residents assigned 72,091 vouchers. Five of the six general election candidates participated in the program and the number of Seattle contributors increased by 300% in 2017 (Seattle Ethics & Elections Commission, 2017).

Administrative & Compliance Costs

The administrative costs of the political contributions credit are minimal.

Similar Credits Allowed in Other States

State	Eligible Contributions	Incentive
Arkansas	Political parties, political action committees (PAC) or candidates seeking state/local Arkansas public office	Credit: $50 (single) $100 (joint)
Minnesota	Minnesota political parties, legislature, governor, secretary of state and state auditor	Credit: $50 (single), $100 (joint)
Montana	Federal/state/local candidates, parties and PACs	Deduction: $100 (single), $200 (joint)
Ohio	State/local candidates	Credit: $50 (single) $100 (joint)

Statute	Tax Expenditure (TE) Name and TE Number (Number aligns with Governor's Tax Expenditure Report)
315.154-156 (318.031)	1.430 Crop Donations

Year	Bill	Chapter	Section(s)	Policy
1977	**HB 3322**	**852**	**2**	**Enacting legislation | Credit equal to 10% of the value of the crop donated (gleaned) | Required certification by State Department of Agriculture | Defined terms**
1979	**HB 2255**	**622**	**2**	**Modified definition of "wholesale market price" | Eliminated donation certification requirements administered by State Department of Agriculture | Added requirements that crop is grown primarily to be sold for cash and that crop is still usable as food for human**
1985	HB 2487	521	3	Required gleaning to be done in Oregon | Non-substantive statutory revisions
1993	HB 2413	730	15,16,18	Measure combined and moved business tax credits from ORS chapters 316, 317, & 318 into chapter 315
1995	HB 2200	54	5	Allowed Department of Revenue to waive requirements of taxpayer to submit proof of eligibility when claiming income tax credits or deductions
1999	HB 2518	21	39,40	Non-substantive statutory revisions
2001	**HB 2718**	**222**	**1,2**	**Expanded list of recipients eligible to receive donated food to include food banks and other tax exempt organizations engaged in charitable food distribution | Change had effect of changing emphasis of credit from crop gleaning to crop donation (which includes, but is not limited to, gleaning)**
2009	**HB 2067**	**913**	**5**	**Placed sunset of 1/1/2012 (was allowed to sunset)**
2014	**SB 1541**	**115**	**1,2**	**Reinstated credit for tax years 2014 to 2019 | Increased the wholesale price allowed as credit to 15% from 10%**

Statute	TE
ORS 316.102	1.446 Political Contributions

Year	Bill	Chapter	Section(s)	Policy
1969	**HB 1572**	**432**	**2**	**Enacting Legislation | Credit equal to least of: amount contributed, 50% of total contribution with a max of $5 (S) $10 (J), tax liability of taxpayer**
1973	**HB 2221**	**119**	**3**	**Increased amount of credit to one-half of total contribution not to exceed $12.50 (S) $25 (J) | Disallowed tax credit if taxpayer has claimed a deduction for a political contribution on federal tax return | Modified definitional language**
1975	**SB 204**	**177**	**1**	**Increased amount of credit to one-half of total contribution not to exceed $25 (S) $50 (J) | Amended definitional language to which donations could be made**
1977	HB 2300	268	1	Modified language related to candidacy and trust, committee, association or organization to which voluntary donations can be made
1979	SB 376	190	413	Aligned credit statute with changes made elsewhere in measure
1985	HB 2011	802	6	IRC connection update
1987	**HB 2225**	**293**	**16**	**Limits on credit increased to $50 (S) $100 (J) and made credit equal to full amount of contribution up to credit limit (increased from half of contribution) | Eliminated language disallowing credit if taxpayer claimed a deduction for a political contribution on taxpayer's federal return | Defined "national political party" | Refined definitional language**
1989	HB 3130	986	1	Aligned definition of "national political party or to a committee thereof" with existing definitions provided elsewhere in statute
1993	HB 2276	797	27	Aligned credit with definitional changes to types of candidates and/or political parties made in other sections of measure
1995	B.M. 9	1	19	Disallows credit for political contributions to a state candidate that has not filed a declaration of limitation on expenditures per Ballot Measure 9 (1994) restrictions.
1995	SB 928	712	104	Statutory language alignment with Ch. 1 Section 19 (1995)
1999	SB 369	999	27	Removed Measure 9 restrictions on political contributions qualifying for the Political Contributions Tax Credit (aligned with 1994 Ballot Measure 9 provisions declared void by
2009	HB 2067	913	34	Placed sunset of 1/1/2014
2013	**HB 3367**	**750**	**6,7**	**Disallowed credit for taxpayers with FAGI > $200,000 (joint return) $100,000 (all others) | Sunset extended to 1/1/2020**