

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								
Tax Credit	Biennium (\$M)							
	Cost Under Current Law				Cost to Extend Sunset Date			
	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

Employer Provided Scholarships

ORS 315.237	Year Enacted:	2001	Transferable:	No
	Length:	1-year	Means Tested:	No
	Refundable:	No	Carryforward:	5-years
	TER 1.401	Kind of cap:	Program	Inflation Adjusted:

Description

Qualified employers providing qualified scholarships via a qualified scholarship program may receive a non-refundable income tax credit. Credit is equal to 50% of the amount of qualified scholarship funds paid to or on behalf of qualified scholarship recipients during the tax year. The credit amount may not exceed \$50,000 per taxpayer per year. Unused credit amounts may be carried forward for five years. Qualified employers are those employing at least four full-time equivalent (FTE) employees but no more than 250 FTE. An employer may receive no more than \$1 million in total lifetime credits.

Minimum criteria for an employer scholarship program is stated in rule by the Higher Education Coordinating Commission (HECC) which is required by statute to develop such rules. HECC aligns qualified employer sponsored scholarship programs with Section 117(b) of the Internal Revenue Code and definition of dependent contained in Section 152 (Oregon Student Access Commission, 2018). IRS guidelines for employer sponsored scholarship programs include provisions such as:

- Program must not be used to recruit or induce employees to continue their employment and the selection committee must be comprised of individuals totally independent and separate from the employer
- Potential recipients must be able to meet admission requirements of and attend an eligible post-secondary institution
- Recipient selection must be based on objective standards that are unrelated to employment or the employer's line of work
- Once awarded, scholarship may not be terminated if employee is no longer employed
- Courses of study for which scholarship is available must not be limited to those that would benefit the employer
- Eligibility requirements must be related to the purpose of the scholarship program
- If a minimum period of employment is required to qualify for the scholarship, the period may not exceed three years

(Oregon Student Access Commission, 2018)

To qualify as an employer scholarship program, employers apply for certification with the Director of the Office of Student Access and Completion (OSAC). OSAC designs the application form in alignment with required statute application specifications. OSAC then determines scholarship program eligibility.

In addition, employers must annually certify their qualified scholarship program tax credit with OSAC. Statute dictates an annual limit of \$1 million in credit certifications. OSAC considers annual credit applications in chronological order.

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.

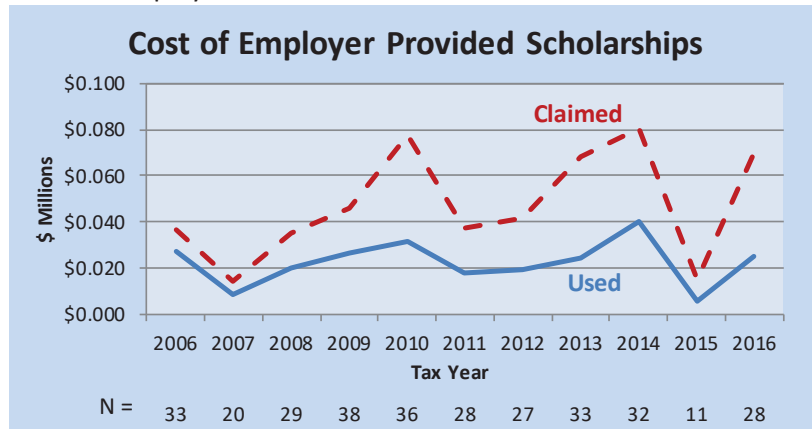
The credit for employer provided scholarships was enacted by HB 2521 in 2001 and submitted supportive testimony provides the basis for determining policy purpose as presented in this report. The underlying policy purpose of the credit as stated by proponents of credit is to **encourage and/or leverage private money to help pay for higher education**. Specific statements of support included:

- “attempt to create financial incentives for businesses to create scholarships for their employees and their employees’ kids”
- “encourage business to take a greater roll in producing the highly educated graduates that their industries and our economy depends on” (Hass, 2001).

Beneficiaries

Direct beneficiaries of the credit are employers that provide qualified scholarships. Secondary beneficiaries may include employees and/or employee dependents receiving a scholarship that absent the credit may not have been provided, or provided in a lesser amount. Usage of the credit has been modest.

The line chart below displays personal income tax claimants and usage of the credit for the past ten years. On average about thirty taxpayers have benefited from the tax credit per year with average tax benefit of about \$800 per year. The chart to the right displays the number of certified employers and amount of credit certified. The number of credit



Certifications of Scholarship Programs		
Tax Year	Certified Employers	Total Credit Certified
2002	1	2,500
2003	3	8,000
2004	3	7,000
2005	0	0
2006	0	0
2007	2	2,750
2008	3	3,250
2009	1	2,500
2010	3	3,750
2011	4	4,750
2012	3	4,250
2013	3	4,750
2014	2	1,500
2015	1	1,000
2016	2	3,500
2017	2	3,500

claimants may not compare to the number of employers certified as employers may be pass through entities which pass through the value of the credit to potentially multiple individual taxpayers.

Similar Incentives Available in Oregon

While numerous incentives are available encouraging higher education participation, in identifying other incentives available in Oregon, focus is specific to the policy purpose of the credit which is to incentivize private investment funding of higher education. Viewed through this lens, no other direct incentive was

identified. However, the corporate and personal income tax bases contain provisions that eliminate or reduce potential negative tax consequences of employer funding of higher education.

So long as employers are acting in compliance with the Internal Revenue Code, employer scholarship grants or reimbursed education expenses of employees can be categorized as business expenses. Employers may also be able to deduct charitable contributions supporting higher education.

The Legislative Fiscal Office identified three direct spending programs that shared some level of policy relationship to the credit. The three spending programs along with each program’s 2017-19 legislatively adopted budget amount is detailed in the table below.

<i>Direct Spending Program</i>	2017-19 Legislatively Approved Budget (\$M)	
	<i>General Fund</i>	<i>Other Funds</i>
Oregon Opportunity Grant	\$125.2	\$20.9
Private Scholarships		\$12.5
National Guard Tuition Assistance	\$2.5	

The Higher Education Coordinating Commission ‘s (HECC) Office of Student Access and Completion (OSAC) administers the Oregon Opportunity grant program which provides grants to lower income students to offset the costs of tuition and other costs at public universities, community colleges, and private colleges/universities.

OSAC also processes and administers grant and scholarship programs for a variety of foundations and other entities (e.g., Oregon Community Foundation). OSAC provides a number of services for the programs including “marketing” the programs, collecting applications, in some cases making preliminary decisions, and distributing the funds for these programs.

OSAC also administers tuition assistance programs for Oregon National Guard members (new for 2017-19 biennium).

Credit Effectiveness and Efficiency

Stated policy purpose of the credit is to encourage and/or leverage private money to help pay for higher education. Viewed as such, the existence of the credit fulfills the stated policy purpose of the credit.

Usage of the credit has remained relatively consistent with few employers taking advantage of the credit. Since 2002 when the program first became available, fewer than 10 employers have been certified for and used the tax credit incentive program. On average, two employers have used the program per year with overall use within a given year ranging from zero employers to a high of four in a single year. Consistent limited use of the credit suggests credit is not stimulating greater involvement of employers of qualifying size to invest in qualified scholarship programs for their employees or employees’ dependents.

Efficiency of the credit depends on response to the incentive from employers, the proverbial “but for” question. The table below illustrates four potential employer response outcomes to the tax credit. The “base” example shows an employer that provides a \$2,500 scholarship with no tax credit. Assuming the

employer is able to deduct the \$2,500 from their income and using a 9% tax rate, total cost to the employer of providing the scholarship is \$2,275.⁷

Outcome 1 displays the same employer with Oregon’s credit and assumes the employer does not change the scholarship amount. In Outcome 1 the employer receives a credit equal to \$1,250 thus reducing cost of the scholarship to the employer to \$1,025 while “net funding” is -\$1,250 reflective of an assumed reduction in General Fund revenue that could otherwise be used to directly support higher education.

Outcomes 2a and 2b provide examples of the employer increasing the scholarship amount in response to the credit reducing the cost to the employer in providing the scholarship. In outcome 2a, the employer doubles the scholarship amount reflective of the credit offsetting 50% of the scholarship. In outcome 2a, net funding is -\$225 reflective of the employer’s increased business deduction. Outcome 2b displays the employer increasing scholarship amount equal to full amount of benefit to employer (credit + increased business deduction). In outcome 2b, net funding is zero as the increase in the awarded scholarship fully reflects the employer’s reduced tax liability.

Outcome 3 reflects an employer that begins offering a scholarship in response to the credit being made available. In this example, net funding increases as the employer has now chosen to offer a scholarship that absent the tax credit would otherwise not be made available.

Outcome Examples of Credit Incentive					
	Base	Outcome 1	Outcome 2a	Outcome 2b	Outcome 3
Employer Scholarship Amt.	2,500	2,500	5,000	5,550	2,500
Business Deduction	225	225	450	500	225
State Credit	0	1,250	2,500	2,775	1,250
Cost of Scholarship to Employer	2,275	1,025	2,050	2,275	1,025
Net Funding	0	-1,250	-225	0	1,025

Note: Example assumes 9% marginal tax rate

Analysis of Potential Direct Appropriation

Administration and oversight of a direct appropriation program would generally mimic the tax credit in terms of certifying scholarship program and payment to employer. Actual amount of credit used to reduce tax liability as compared to credit claimed has averaged about 50% over the preceding ten years. While the credit may be carried forward for five additional years, direct appropriation could potentially increase immediate benefit to employers with limited or no tax liability.

Administrative and Compliance Costs

Administrative and compliance costs are minimal. Certification of scholarship credit program represents a very small portion of OSAC’s overall oversight responsibility of scholarship programs (Potoski, 2018). Administrative and compliance costs for Department of Revenue are also minimal.

⁷ For example simplification purposes, federal tax liability changes are not included.

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 indicates changes that are more policy-oriented.

Statute	Tax Expenditure (TE) Name and TE Number (Number aligns with Governor's Tax Expenditure Report)				
315.237	1.401 Employer Provided Scholarships				
	Year	Bill	Chapter	Section(s)	Policy
	2001	HB 2521	475	1-9	Enacting legislation
	2009	HB 2067	913	24	Established sunset of 1/1/2014
	2011	SB 242	637	102	Definitional change aligning to other related statutory changes (Oregon Student Assistance Commission replaced by Oregon Student Access Commission)
	2013	HB 3367	750	17	Sunset extended from 2014 to 2020
315.266	1.405 Earned Income				
	Year	Bill	Chapter	Section(s)	Policy
	1997	SB 388	692	3	Enacting legislation Credit amount equal to 5% of federal earned income tax credit (EITC) Credit not refundable and no carryforward allowed
	2001	HB 2777	114	33	Statutory grammar correction
	2001	HB 2272	660	56	Specified Internal Revenue Code (IRC) date connection as IRC in effect on June 8, 2001
	2003	HB 2186	77	12	Removed IRC date connection language (IRC connection became part of ORS 314.011)
	2005	SB 31	832	54, 57, 59	Made Oregon EITC refundable beginning 1/1/2006 Increased credit amount to 6% of federal EITC beginning 1/1/2008 Sunset refundability for OR EITC as of 1/1/2011
	2007	HB 2810	880	2	Extended refundability through tax year 2013 Full sunset of credit set to 1/1/2014
	2013	3367	750	1	Sunset extended to 1/1/2020
	2013 S.S.	HB 3601	5	6d	Increased OR EITC to 8% of federal EITC effective beginning with tax year 2014
	2016	HB 4110	98	1	Increased OR EITC to 11% of federal EITC for taxpayers with a dependent under the age of 3 at end of tax year (beginning TY 2017)
315.622	1.408 Volunteer Rural Emergency Medical Services Providers				
	Year	Bill	Chapter	Section(s)	Policy
	2005	SB 31	832	63,66	Enacting legislation Credit equal to \$250 made available to certified emergency medical technicians (EMTs) that provide volunteer EMT services in rural areas when at least 20% of the EMT's total technician services provided in that year are provided in rural areas
	2009	HB 2067	913	26	Extended sunset to 1/1/2014
	2011	SB 234	703	31	Modified statutory terminology
	2013	3367	750	16	Sunset extended to 1/1/2020