REVENUE IMPACT OF PROPOSED LEGISLATION

80th Oregon Legislative Assembly
2019 Regular Session
Legislative Revenue Office

Bill Number:	**HB 2164 - A**
Revenue Area:	**State Finance**
Economists:	**Allanach / Easton / McGovern**
Date:	**6-18-2019**

Only Impacts on Original or Engrossed Versions are Considered Official

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Measure Description:

This measure extends and modifies several tax expenditures and makes a series of modification and clarifications to the Corporate Activity Tax.

Revenue Impact (in $Millions):

	Biennium		
Policy	**2019-21**	**2021-23**	**2023-25**
Cultural Trust contributions	-4.2	-8.6	-9.0
Manufactured dwelling park capital gain subtraction	Minimal		
Manufactured dwelling park closure credit	Minimal		
Certain retirement income	-0.7	-1.4	-1.4
Volunteer rural EMS providers	-0.1	-0.2	-0.2
Employer provided scholarships	Minimal		
Agriculture workforce housing construction	-2.0	-4.1	-4.1
Crop donation	-0.2	-0.4	-0.5
Earned income tax credit	-56.7	-118.4	-125.5
Political contributions	-5.7	-10.8	-11.5
Short line railroads	-1.1	-2.8	-3.2
Replace 529 subtraction with 529 refundable credit	0.3	0.9	-0.9
IDA contributions	Indeterminant		
Total General Fund	**-70.5**	**-146.0**	**-156.4**
Low income rental housing	-0.1	-0.2	-0.2
Historic property special assessment	0.0	-0.6	-1.9
Food processing equipment	-1.1	-7.8	-13.9
Total Property Tax	**-1.2**	**-8.6**	**-15.9**
Vehicle used for testing emissions (gas/use fuel)	Minimal		
Vehicle used for testing emissions (weight-mile)	-0.1	-0.3	-0.3
Fund for Student Success	-1.9	-4.0	-4.5

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Impact Explanation:

Sunset extensions & modification (income tax expenditures)
Revenue impact estimates were made based on analyses of historic tax expenditure usage as reported on personal and corporate income tax returns. Estimates were also informed by recent federal IRS regulations (where applicable) and other relevant policy implication assumptions.

The following income tax expenditures are extended for six years:
- Cultural Trust contributions credit
- Manufactured dwelling park capital gain subtraction
- Manufactured dwelling park closure credit
- Certain retirement income credit
- Volunteer rural emergency medical services providers credit
- Employer provided scholarships credit
- Agriculture workforce housing construction credit
- Crop donation credit

The following income tax credits are modified and/or extended for six years:
- The Oregon earned income tax credit is increased from 8% to 9% of federal earned income tax credit and, for taxpayers with a dependent under the age of three, from 11% to 12%.
- The eligibility threshold for the political contributions credit is reduced from $200,000 to $150,000 for joint filers and from $100,000 to $75,000 for all other filers
- The maximum credit percentage allowed for contributions to a fiduciary organization for distribution to individual development accounts (IDA) is increased from 70 percent to 90 percent. (The sunset date is unchanged.)

New income tax credits
<u>Short line railroads:</u> Creates income tax credit for owners or lessees of short line railroads that incur costs directly related to the work necessary to maintain, reconstruct or replace short line railroad infrastructure in Oregon. For purposes of determining short line railroad rehabilitation project costs, disallows costs used to qualify for or used to claim any state or federal grants or federal tax credit.

Creates two tiers of tax credit benefit. Specifies tier 1 as person that cumulatively owns or leases short line railroad track in Oregon in excess of 200 miles. Limits credit allowed for tier 1 taxpayers to lesser of $1,000 multiplied by number of short line track miles owned or leased in Oregon, or fifty percent of short line rehabilitation project costs. Specifies tier 2 as any person that is not a tier 1 or is a public entity. Limits credit allowed for tier 2 taxpayers to lesser of $3,500 multiplied by number of short line track miles owned or leased in Oregon, or fifty percent of short line rehabilitation project costs. Specifies that initial credit qualification is limited to tax years 2020 through 2025. Limits potential tax credits to no more than $4 million per biennium.

Implementation of tax credit is expected to reduce General Fund revenue by amounts contained in table. Estimated increasing loss in revenue in future biennia results from an expectation that not all taxpayers claiming the credit will immediately use the credit to reduce tax liability but rather will carry all or a portion of the credit forward to future tax years as allowed. Estimates were informed by the number of track miles owned or leased

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by the various short line railroads in Oregon along with available historical information relating to past rehabilitation expenses of short line railroads and published findings of the Oregon State Rail Plan.

Replace 529 subtraction with 529 credit: Creates refundable personal income tax credit for contributions to a 529 higher education savings network account or an ABLE account. Limits credit to $300 if reported by taxpayer on a joint return or $150 if reported on any other type of return. Specifies framework for credit amount as a function of taxpayer's adjusted gross income and amount contributed. Specifies credit is available in tax years 2020 through 2025. Limits existing law 529 subtraction to contributions made in tax years beginning before January 1, 2020 and allows unused subtracted amounts to be carried forward only to tax years beginning before January 1, 2025.

Analysis of historical 529 subtraction data indicates that taxpayers with adjusted gross incomes (AGI) less than $70,000 will receive, on average, greater tax benefit under the proposed refundable credit than the existing law income tax subtraction. As taxpayer AGI increases above $100,000, the expected tax benefit from the credit becomes, on average, less than existing law subtraction tax benefit. Changing the 529 tax subtraction to a refundable credit is expected to incentivize an additional 3,500 taxpayers to contribute and receive a 529 tax benefit. The additional number of taxpayers that will receive a tax benefit is expected to occur over multiple years reflective of increased taxpayer awareness of the credit. Revenue impact estimate reflects replacement of 529 education subtraction with refundable credit. Estimate also reflects replacement of 529 ABLE subtraction, which is scheduled to sunset following tax year 2021, with credit scheduled to sunset following tax year 2025. Estimate was made through an examination of historical tax returns claiming the 529 income tax subtraction and through an analysis of relevant census data. Additionally, estimate parameters were informed by conversations with other states regarding their experiences following changes to their 529 tax incentive programs.

Property tax expenditures

Low income rental housing: Extends sunset of property tax exemption for newly constructed low-income rental housing from 2020 to 2030. The current value of the property that is exempted due to this law is approximately $65 million statewide. Those properties would be considered continuing (for a maximum of 20 years for each property) and therefore not affected by the sunset. Given the total amount of property on the roll, the cyclical nature of new applicants, and along with current local CPR's, the impact is estimated to be roughly $100,000 for the first biennium. This estimate reflects the ability of developers to complete projects prior to the sunset.

Historic Property: Extends sunset of property tax special assessment from 2020 to 2022. The value in the table represents the additional properties that are allowed to enter the program with the sunset extension. In particular, existing properties, already in the program before the current sunset date, see no change. When a property enters the program the value of the property is frozen prior to renovation and restoration. The revenue impact arises from the incremental tax revenue that is foregone by the frozen value.

Food processing equipment: Extends sunset on property tax exemption for food processing equipment from 2020 to 2025. Exempts from property taxation, new food processing equipment for the initial 5 years. Allows counties and cities to change exemption to partial exemption and reduce number of years for exemption.

The current sunset for the property tax exemption on new food processing equipment is 2020, so that the final property year for new applicants and equipment is 2019-20. This bill extends that sunset until 2025. Currently the exemption is mandatory and can only be received for five years whereas changes in measure allow counties and city governments to deny such an exemption or set a partial exemption for up to 5 years. The numbers in the first biennium represent the net impact in property tax year 2020-2021 since the prior year is unaffected by the sunset currently in statute. Subsequent biennial impacts in the table above represent new applicants. The impacts account for the depreciation of the personal property, and historical expansion of the exemption. The revenue impact may be mitigated if cities and/or counties choose to adopt an ordinance that reduces the benefit to individual property owners receiving this exemption.

Vehicle used for testing emissions
Extends sunset, from 2020 to 2026, of exemption from motor carrier tax and fuel tax available to persons operating the motor vehicle for the purpose of emissions research and development.

Corporate Activity Tax
The amendment contains a series of modifications and clarifications to the Corporate Activity Tax created in HB 3427. In some instances, clarifying language changes have been made based on stakeholder feedback. For example, the definition and sourcing of commercial activity for financial institutions and insurers has been restructured and refined to better align with the intent of HB 3427. The list of items excluded from the tax base (i.e. not commercial activity) has been refined. The changes reflect items that weren't part of the original tax base estimates, so they are not expected to change the revenue impact estimate for HB 3427. Another example of clarifying language is the modification to the definition of 'cost inputs', which better aligns the language with the calculation used in federal law to determine cost of goods sold. The language improvement does not have a revenue impact because the original estimates were based on the underlying federal calculations.

The change in the definition of 'excluded person' for the threshold from $1 million to $750,000 does not change the tax calculation; it simply aligns the threshold with that of the registration process. Under these modifications, taxpayers will have to register with the Department of Revenue if they have at least $750,000 of commercial activity. The tax is unchanged and continues to be calculated only on taxable commercial activity above $1 million. Items that could potentially have a comparatively small impact on revenue are the inclusion of unrelated business income for exempt entities and the change in the language regarding sales to agricultural co-operatives. However, the net impact is not expected to be significant and may have offsetting effects.

The policy with an impact on revenue is the exclusion of certain amounts from the commercial activity of general contractors building single-family residential homes. The exclusion is limited to 15 percent of qualified labor payments made by general contractors to subcontractors. The estimate is based on 2012 Census data for qualifying labor payments. The estimate is grown to tax year 2020 based on a combination of tax return data and projections consistent with the base estimates for the Corporate Activity Tax.

Creates, Extends, or Expands Tax Expenditure: Yes ☒ No ☐

Policy Purposes

Cultural Trust
To protect and stabilize Oregon's cultural resources by creating a solid foundation for the future through the leveraging of private sector support from both individuals and businesses.

Manufactured dwelling park capital gain
To encourage sales of manufactured dwelling parks to a corporate entity formed by the tenants of the park, or by a nonprofit corporation or housing authority.

Manufactured park closure
To mitigate the costs to manufactured dwelling park households that are forced to move due to instances where market forces and development are causing closure of the manufactured dwelling park.

Certain retirement income
To provide tax relief to low-income individuals with pension income.

Volunteer providers of rural emergency medical services
To help defray the out of pocket costs of rural volunteer providers of emergency medical services.

Employer provided scholarships
To encourage and leverage private money to help pay for higher education.

Agriculture workforce housing construction
To provide support for the construction or rehabilitation of agriculture workforce housing thereby supporting the goal of ensuring adequate agricultural labor housing through a collaboration of the public, private and nonprofit sectors.

Crop donation
To increase the amount of food donated to gleaning cooperatives, food banks and other charitable organizations as well as providing compensation to farmers who donate already harvested crops.

Earned income tax credit
To increase the spendable income of low-income working families by offsetting state income taxes, thereby encouraging low wage earners to enter the labor force or earn more if already part of the labor force.

Political contributions
To encourage large numbers of people to contribute small amounts of money to candidates and political parties, thereby encouraging participation in the political process.

Short line
To encourage and leverage private capital investment in short line railroad infrastructure with the intent to create cascading economic development opportunities across the state and to incentivize new short line rail customers by improving the conditions of short line railroads throughout Oregon.

529 Credit
Higher education: To provide families and individuals a tool with which to begin saving for higher education expenses thereby encouraging individuals to commit to continuing their education beyond high school. Policy intent of restructuring tax subtraction as a refundable credit is to make tax incentive more available to families and individuals of more modest means.
ABLE: To help people with disabilities to save money for necessary expenses to meet the challenges of life.

Low income rental housing
To provide an incentive for nonprofit and for-profit development of low-income rental housing.

Historic property
To maintain, preserve and rehabilitate properties of Oregon's historical significance.

Food processing
To protect and stabilize Oregon's cultural resources by creating a solid foundation for the future through the leveraging of private sector support from both individuals and businesses.

Vehicle used for testing emissions
To avoid taxing research and compliance work.

Certain Labor Payments
To encourage the employment of subcontractors within the residential construction sector.