NANCY NATHANSON
STATE REPRESENTATIVE
DISTRICT 13
HOUSE OF REPRESENTATIVES

DATE: **FEBRUARY 4, 2021**

TO: **HOUSE POLICY COMMITTEE CHAIRS**

FROM: REPRESENTATIVE NANCY NATHANSON, CHAIR, HOUSE COMMITTEE ON REVENUE

RE: REVIEWING TAX EXPENDITURES

Thank you for reviewing tax expenditures! As you know, a tax expenditure is a mechanism to reduce the amount of taxes paid by a taxpayer through a "tax break" like an income tax credit or a property tax exemption. The money is "spent" on providing a tax break instead of spent directly on a service or program or grant. There are 377 tax expenditures listed in the ***Tax Expenditure Report***, a companion document to the Governor's Budget. Some are used by many taxpayers, others by relatively few.

The Department of Revenue (DOR) website explains the tax expenditure report here. The 466-page Tax Expenditure Report provides detail on all tax expenditures, and a separate table shows them by subject area.

> This excerpt from the Report includes a few summary points:
>
> *This report describes 377 individual tax expenditures currently specified in Oregon and federal law. Of those, 185 are related to Oregon's personal and corporation income taxes and 136 are related to local property taxes. The remaining 56 are related to various other state tax programs. More than half of the 185 income tax expenditures result from Oregon's connection to the federal income tax code. Oregon is generally tied to the federal definition of taxable income. By adopting the federal definition of income, Oregon also adopts most of the exclusions and deductions from income that are part of federal personal and corporation income taxes.*
>
> *It is also important to note that there are several extremely large single tax expenditures in both the property and income tax programs that influence these totals. For example, for 2021–23, roughly $6.2 billion of the $11.0 billion of tax expenditures in the property tax program is related to three property tax expenditures: the exemption for state and local property ($2.9 billion), the exemption of federal property ($1.7 billion), and the exemption of personal property for personal use ($1.6 billion). Similarly, the three largest income tax expenditures (the exclusion of employer paid medical benefits, the personal exemption, and the exclusion of pension contributions and earnings) account for about $5.5 billion of the total $15.2 billion for all income tax expenditures*

Since 2015 the Legislative Revenue Office has been required to produce an ***Expiring Tax Credit Report*** that is intended to be a "deeper dive" into the tax credits that are scheduled to sunset in the upcoming biennium. The primary purpose of the report is to support the tax credit policy analysis conducted by the Legislature during each long session. That report will help you start

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your review. Please note that the process has been expanded to include property tax exemptions as well as income tax credits.

Careful review of tax expenditures (credits, deductions, and exemptions) is just as important as careful review of spending on operations, services and programs. I appreciate your thoughtful consideration of each tax expenditure relevant to your committee's work.

Here are some ideas about organizing a thorough review so you can send the information as a report to the House Committee on Revenue with any tax expenditure bill that you decide to pass and refer to HREV:

The basics

1. What is the public policy purpose of this tax expenditure (TE)? (for example, reduce hunger, or increase post-secondary enrollment and therefore create a more highly skilled labor force)
    - Is this TE designed as an incentive to change behavior, or to make up for some extraordinary or unfair cost to the taxpayer? (An example provided in the DOR report: "a program to encourage businesses to purchase pollution abatement equipment could be structured with an incentive in the form of a tax credit or a direct payment by the state to businesses.")
2. Is there an expected timeline for achieving this public policy goal?
3. Who directly benefits from this TE? Does it target a specific group? If so, is it effectively reaching this group? (for example: Who? Groups of individuals, types of organizations or businesses. How many? What are their demographic characteristics?)
4. Is the TE an effective and efficient way to achieve this policy goal? What are the administrative and compliance costs associated with this credit? Is there a cost/benefit analysis?
5. What background information on the effectiveness of this type of TE is available from other states?

Other approaches

6. Tax expenditure changes:
    - Could adequate results be achieved with a scaled down version of the credit or exemption? What would be the effect of reducing the incentive by 50%?
    - Should it be scaled up or redirected to accomplish similar, broader, or more targeted goals?
    - Other changes to target the incentive to make it more *effective*? More *efficient*?
7. Direct spending: Would a direct appropriation achieve the goal of this incentive more efficiently? (for example, increasing funding for a particular state or local program instead)
    - Are there also state services or programs designed to help achieve the goal?
8. What other kinds of incentives (including state or local TEs and subsides, federal tax expenditures or subsidies) might achieve a similar policy goal?
9. What is expected to happen if this tax expenditure fully sunsets?