

# Tax Credits for Review in 2021

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
<i>Scheduled for Review by the 2021 Legislature</i>					
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
<b>SUBTOTAL</b>			<b>\$53.6</b>	<b>\$108.6</b>	<b>\$110.8</b>

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's 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.

## **Public University Venture Development Fund**

<b>ORS 315.521</b>	Year Enacted:	2005	Transferable:	No
	Length:	1	Means Tested:	No
	Refundable:	No	Carryforward:	3-years
	<b>TER 1.422</b>	Kind of cap:	Program	Inflation Adjusted:

### *Policy Purpose*

While statute does not contain a public policy purpose or goal for the tax credit, it does state the purpose for Public University Venture Development Funds (UVDF). ORS 351.697(1) states that the purpose of these funds is to facilitate “...the commercialization of university research and development.” Statute continues as follows:

*(2) The purposes of a university venture development fund are to provide:*

*(a) Capital for university entrepreneurial programs*

*(b) Opportunities for students to gain experience in applying research to commercial activities*

*(c) Proof-of-concept funding for transforming research and development concepts into commercially viable products and services and*

*(d) Entrepreneurial opportunities for persons interested in transforming research into viable commercial ventures that create jobs in this state.*

Based on legislative committee discussions and the statutory purpose of the UVDF, a reasonable interpretation of ***the policy purpose of the credit is to encourage contributions to respective university venture development funds.***

After the initial indirect outlays from the General Fund via the tax credit, state supported funding for the UVDF is designed to function in an equalized manner. Once a UVDF certifies its statutorily limited total allotment of tax credits, the university may only certify additional tax credits equal to amounts repaid to the General Fund through income realized from UVDF supported commercialization of university research and development. Statute identifies neither a timeline nor specific metrics for evaluating the policy. Testimony provided to the House Committee on Revenue on behalf of participating universities suggested a reasonable timeline of 10-12 years for evaluating the program in terms of dollars beginning to cycle back from UVDF to the General Fund (Wall, 2016).

### *Description*

Individuals and businesses that make donations to Public University Venture Development Funds are allowed a tax credit against personal or corporate income taxes. The tax credit is equal to 60 percent of the amount contributed but may not exceed \$600,000. The amount of the credit may not exceed the tax liability of the taxpayer and unused credit amounts can be carried forward for up to three succeeding tax years.

Oregon universities may establish university venture development funds to provide capital for affiliate research and development of commercially viable products and services. Amounts contributed to UVDFs are used to support the commercialization of university research and campus-based entrepreneurial education. Either the university or its affiliate organizations may accept donations, issue credits, and manage the monies in the funds. Typically, the university foundation has this role.

Statute limits the amount each university’s UVDF may owe the General Fund.<sup>58</sup> Once a university issues tax credits equal to its specified maximum, the university may only issue additional credits equal to the amount the university has repaid the General Fund. The total amount of tax credits available to be issued for all universities is \$8.4 million (each university’s limit is displayed in the table in the policy analysis section later). A university must transfer 20 percent of the income realized through its UVDF to the state General Fund, up to the amount of tax credits issued by the university as a result of contributions.

*Policy Analysis*

As indicated in statute, the core function of the UVDF program is to facilitate the commercialization of university research and development through proof-of-concept funding, improving capital availability and support for student experience in applying research to commercial activities. The purpose of the credit is to encourage contributions to UVDF programs up to the statutory limit (\$8.4 million aggregate limit for all universities) with continued contribution facilitation occurring as repayments to the General Fund are received from respective UVDFs.

Generally speaking, the expectation is that it may take 10-12 years for a research concept to go from a concept to commercialization. Oregon’s Signature Research Centers support the commercialization of products conceived at Oregon’s universities. Even with this support, stakeholders were of the opinion that there was a gap in the funding process. The UVDFs were designed to eliminate this gap by focusing on the entrepreneurship and proof-of-concept stages and ensuring sufficient financial support in the early stages of product development.

The administration of this program uses the concept of tax credit certificate authority. This is the amount of donations to a given fund that is the basis for calculating the tax credit. The total amount of tax credit certificate authority for all funds is \$14 million. This total translates into the statutory tax credit cap of \$8.4 million, which is 60 percent of the \$14 million. The administrative rules for this program allocate this authority across the education institutions. For example, Oregon State University has the largest share of authority with nearly \$6.6 million (\$3.9 million in tax credits). The table below displays tax credit authority for each university. Statute allows the presidents of any two or more universities that have established a university venture development fund to achieve an annual agreement for the reallocation of amounts within their respective limits.

Certified Tax Credit Limit by Education Institution			
Oregon State	\$3,947,720	Eastern Oregon	\$7,500
University of Oregon	\$2,122,670	Southern Oregon	\$7,500
Portland State	\$1,275,840	Western Oregon	\$7,500
Oregon Health & Science	\$1,023,770	Oregon Institute of Tech.	\$7,500

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<sup>58</sup> Owe in this context refers to the total amount of tax credits issued by the UVDF.

*Credit Incentivization of Contributions to UVDFs*

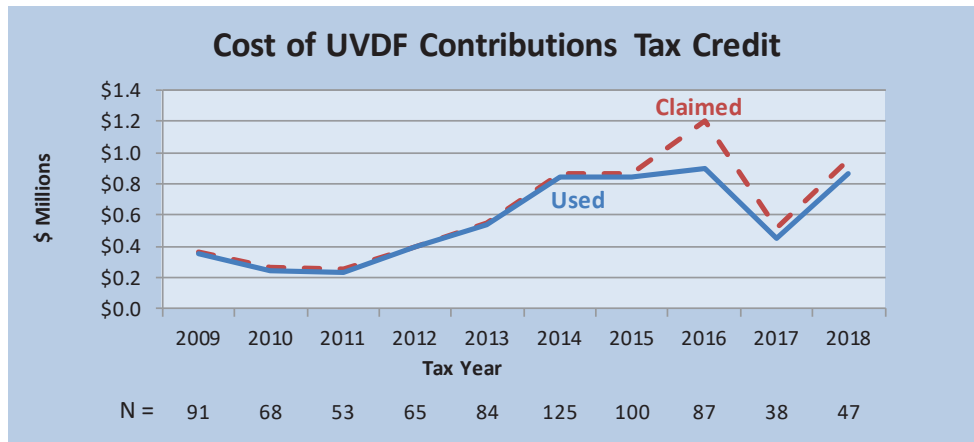
The Oregon credit creates an incentive for Oregon taxpayers with sufficient tax liability to make contributions to respective UVDFs. The following table provides an example of the value of the tax credit from a perspective taxpayer’s point of view.<sup>59</sup> The table displays two potential options for the taxpayer, one is a donation to a UVDF while the other is a donation to a tax exempt charitable institution (labeled “Without UVDF Credit” in table). As displayed in the table, the total after tax “cost” to the taxpayer of donating \$10,000 to a UVDF is \$2,720 which reflects \$6,000 offset through the Oregon tax credit and an additional \$1,280 offset as a federal deduction on the taxpayer’s federal return. This contrasts with a typical charitable donation where \$990 and \$3,200 are offset through itemized deductions on the taxpayer’s Oregon and federal income tax returns respectively.

Illustrative Example of Tax Credit Value		
	With UVDF Credit	Without UVDF Credit
Contribution	\$10,000	\$10,000
Oregon Credit	\$6,000	\$0
Oregon Deduction	N/A <sup>1</sup>	\$990
Federal Deduction <sup>2</sup>	\$1,280	\$3,200
<b>Total "cost" to Taxpayer</b>	<b>\$2,720</b>	<b>\$5,810</b>

<sup>1</sup>ORS 315.640(6) effectively disallows a taxpayer that claims the credit from also claiming an Oregon deduction for the same donation.

<sup>2</sup>IRS regulations require taxpayers to reduce their charitable contribution deductions by the amount of any state tax credit they receive in return.

Historically, the tax credit is used by about 70 taxpayers per year with very few corporations using the tax credit. On average, about \$500,000 in tax credits are claimed and used each year. The following chart displays the historic claim and use of the credit. Tax year 2016 coincided with credit policy changes likely causing the reporting discrepancy between credit claimed and credit used.



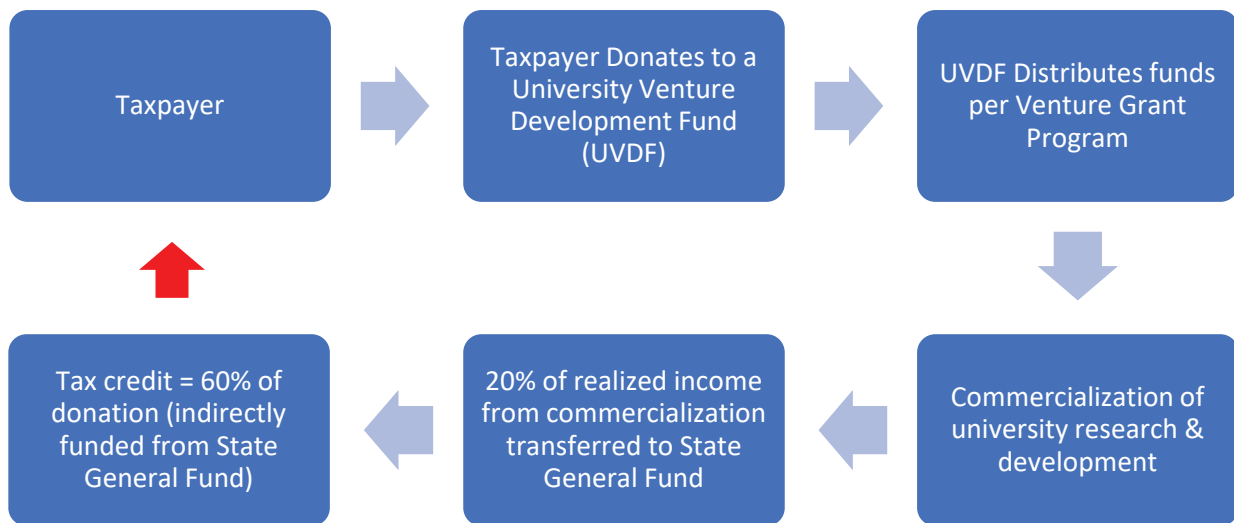
Unlike some of Oregon’s other matching donation tax credits,<sup>60</sup> recent contributions and credit use indicate that the credit continues to incentivize taxpayer contributions to UVDFs. Having said that, future use of the credit may be limited as multiple universities are nearing their respective tax credit limits thereby limiting future tax credit certifications until repayments to the state General Fund are made.

<sup>59</sup> This example is simplified for illustrative purposes. Actual amounts would depend on the particulars of an individual’s tax return. For this example, a marginal income tax rate of 9.9% is assumed for Oregon and 32% for federal.

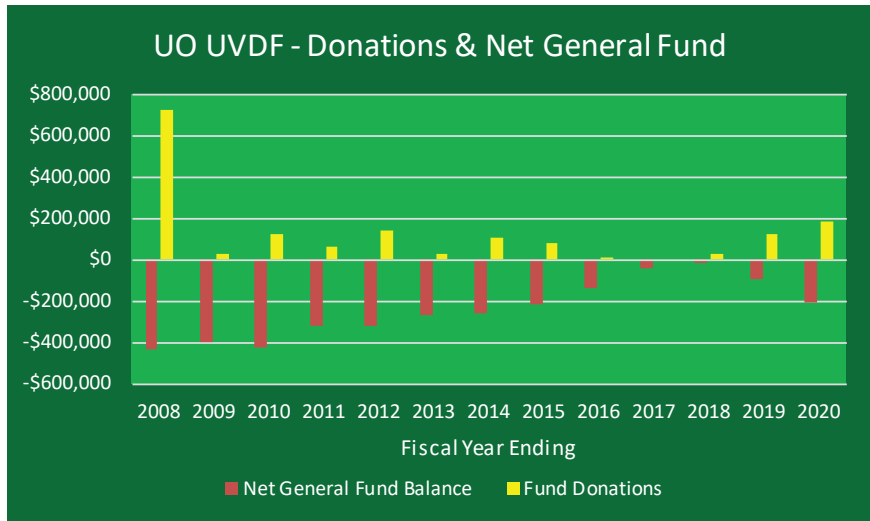
<sup>60</sup> See report section on Office of Child Care Contribution.

*Credit Contribution, UVDFs and Fund Flows*

The exhibit below illustrates the flow of funds for the UVDF tax credit program and is specific to the flow of tax credit related funds. Excluded from this exhibit are potential knock-on effects from UVDF funding resulting from commercialization such as new business formation and related employment. As displayed, the flow of funds begins with a taxpayer donating to a UVDF. The taxpayer then receives a tax credit equal to 60% of the donation amount which is funded through decreased State General Fund tax receipts. The UVDF then distributes funds through the Venture Grant Program supporting the commercialization of university research and development. Twenty percent of subsequent income received by the UVDF from commercialization (royalties, license fee payments, sale of equity, etc.) is then transferred to the State General Fund (up to certified tax credit amounts). Once a UVDF reaches its tax credit certification limit, the UVDF may only continue to issue tax credit certificates in amounts equal to tax credits repaid to the General Fund.



The experience of the University of Oregon’s (UO) UVDF provides an example (though atypical compared to the other education institutions) of the potential flow of funds relating to the contribution credit. The yellow columns on the following chart reflect contributions to UO’s UVDF whereas the maroon columns display the net outstanding balance of the General Fund expended via the tax credit. As displayed, the outstanding balance of the General Fund has been declining in recent years reflective of repayments received from the UO UVDF.<sup>61</sup> While making repayments to the General Fund, UO continued to receive contributions to its UVDF. At time of report publication, UO had largely repaid the full balance with the General Fund while having received nearly \$1.7 million in UVDF contributions since inception.



The table on the following page provides a status of the program as of June 30, 2020. The information is based on statutorily required university annual reports. In total, \$11.1 million in donations have been made since program inception. That total translates into \$6.6 million in tax credits issued. Of the \$11.1 million received, a total of \$8.4 million has been awarded. Also, income and royalties of \$5.6 million have been received, most of which by the University of Oregon (UO) program. The General Fund has been repaid roughly \$900,000 most of which coming from the UO program. Outside of UO, about \$800,000 in credits remain to be issued without additional transfers to the General Fund being received from Oregon State University, Oregon Health and Science University and Portland State University (OSU, OHSU and PSU). As UO has repaid the General Fund, additional tax credit certification automatically is awarded allowing UO to issue up to \$1.9 million in credits (as of June 30, 2020).

<sup>61</sup> A recent repayment received after the 2020 fiscal year end of about \$200K zeros out the General Fund balance.

<b>Public University Venture Development Funds (\$'s in Millions)</b>					
	<b>OSU</b>	<b>UO</b>	<b>OHSU</b>	<b>PSU</b>	<b>Total</b>
<i>Deposits</i>					
Fund Donations	\$6.3	\$1.7	\$1.6	\$1.5	\$11.1
Income to the Fund	\$0.0	\$0.1	\$0.1	\$0.0	\$0.1
Income and Royalties from Disbursement	\$0.0	\$5.0	\$0.4	\$0.2	\$5.6
<i>Withdrawals</i>					
Disbursements and Grants	\$4.4	\$1.3	\$1.2	\$1.8	\$8.7
<i>Tax Credits</i>					
Total Certificate Authority	\$6.6	\$3.5	\$1.7	\$2.1	\$14.0
Total Credits Allowed	\$3.9	\$2.1	\$1.0	\$1.3	\$8.4
Credits Issued	\$3.8	\$1.0	\$1.0	\$0.9	\$6.6
Credits Available to be Issued	\$0.2	\$1.9	\$0.2	\$0.4	\$2.7
<i>General Fund</i>					
Transfers to the General Fund	\$0.0	\$0.8	\$0.1	\$0.0	\$0.9
General Fund Net	-\$3.8	-\$0.2	-\$0.9	-\$0.9	-\$5.7

As of June 30, 2020

Given the potentially long duration for a financial return on investment (ROI) to be realized, there is some question as to the optimal time frame for evaluating this particular tax credit. The ultimate test of whether or not this program works is measuring the ROI. Despite this ideal approach, initial information suggests there are differences in the returns across the funds as the UO has received \$5.0 million in income and royalties on disbursements of \$1.3 million.

### *Similar Incentives Available in Oregon*

The Legislative Fiscal Office identified five direct spending programs that shared some level of policy relationship to the credit. The five spending programs along with each program's 2019-21 legislatively adopted budget amount is detailed in the table below.

<b>Direct Spending Program</b>	<b>2019-21 Legislatively Adopted Budget (\$M)</b>		
	<b>General Fund</b>	<b>Lottery Funds</b>	<b>Other Funds</b>
Signature Research Centers	\$1.1	\$12.4	
University Innovation Research Fund	\$2.6		\$10.0
Tallwood Design Institute	\$3.6		
Renewable Energy Center	\$0.5		
Oregon Metals Initiative		\$9.2	\$3.4

Signature Research Centers (SRCs) focus on emerging industry sectors where Oregon has innate advantages and are potential high-growth sectors in the future. There are three Signature Research Centers. These SRCs work directly with Oregon's four research universities in a partnership designed to commercialize the R&D being created on campus, support the commercialization of R&D in the private sector, and increase the collaboration and capacity of the state's universities.

The University Innovation Research Fund is used to match federal funds that support innovation and commercialization of technology from Oregon's public universities and Oregon Health & Science University, which has a direct or potential connection to economic development.

The Tallwood Design Institute is a research collaborative that focuses exclusively on the advancement of structural wood products. It conducts the research needed for widespread adoption of mass timber building technology in the U.S. The Institute is a partnership between Oregon State University and the University of Oregon.

The Oregon Institute of Technology Oregon Renewable Energy Center serves small and medium-sized companies seeking a university collaborator to prototype, test, validate, and accelerate “cleantech” products and renewable energy applications.

The Oregon Metals Initiative, Inc. (OMI) is a consortium of metals industry companies and research institutions that pursue research to improve the long-term competitiveness of the metals industry and the research infrastructure in Oregon. This objective is met through joint industry-academic research projects.

### *Other Issues*

While this program was based on the Washington Commercialization Gap Fund (CGF), which is a partnership between the University of Washington Center for Commercialization and the Washington Research Foundation, using a tax credit as the source for funds appears to be unique. There appear to be no other states that offer such a tax credit.

The administrative costs for this program are largely born by the universities or their affiliate foundations that have created these funds. They solicit contributions, and receive, manage, and distribute money contributed to their funds. They also certify the tax credits. The university or foundation may charge an administrative assessment of up to three percent of the fund’s average balance during the fiscal year. As with all tax credits, taxpayers and the DOR have costs associated with record keeping and processing & auditing, respectively.



Statute	Tax Expenditure (TE) Name and TE Number (Number aligns with Governor's Tax Expenditure Report)			
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<b>315.640</b>	<b>1.422 Public University Venture Development Fund</b>			
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Year	Bill	Chapter	Section(s)	Policy
2005	SB 853	592	5	Enacting legislation
2009	HB 2067	913	27	Added sunset of 1/1/2016
2013	HB 3367	750	42-43	Clarified sunset such that it applies to the first year of the 3-year credit
2016	HB 4072	31	2	Reinstated and extends sunset to 1/1/2022   Modified credit maximum from \$50K to \$600K taken over three years with 3 year carryforward   Modified university allotment
2019	2141	483	15	Requires universities to share tax credit eligibility information with DOR

<b>315.176</b>	<b>1.430 Bovine Manure for Biofuel</b>			
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Year	Bill	Chapter	Section(s)	Policy
2017	HB 2066	610	11	Enacting legislation   Credit spun off from Biofuel credit   Credit amount set at \$3.50 per wet ton of manure   Certified by Dept. of Ag.   Specified transferability   Limited tax year credit claimants to \$5 million   Applicable to TYs 2018 through 2021
2018	HB 4028	111	1-2	Clarified definition of "bovine manure"   Modified \$5 million annual limit to apply to annual certifications issued rather than credits claimed

<b>315.523</b>	<b>1.404 Employee Training in Eligible Counties (Klamath)</b>			
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Year	Bill	Chapter	Section(s)	Policy
2017	2066	610	19	Enacting legislation   Credit equal to 12% of taxpayer's expenses to establish & implement employee training program in a qualifying county   3-year carryforward

<b>734.835</b>	<b>1.445 Oregon Life and Health IGA Assessments</b>			
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Year	Bill	Chapter	Section(s)	Policy
1975	SB 577	251	14	Created
1995	HB 2855	786	9	Removed 'premium' (change in taxation of insurance companies)
2009	HB 2067	913	50	Added sunset of 1/1/2016
2015	HB 2171	701	13	Extend sunset to 1/1/2022