



SB 129A: Ending tax credit auctions is a victory for efficiency

Joint Committee on Tax Expenditures – Bennett Minton – 3/24/2023

Cochairs Nathanson and Meek, members of the committee:

I'm Bennett Minton, with Tax Fairness Oregon. We are a network of volunteers who advocate a tax code that is rational and equitable.

The Opportunity Grants Tax Credit is no longer an efficient means of financing a program. The Education Committee recognized that fact when it amended the bill, 6-0, to end these auctions. We heartily support ending the auctions as a first step in increasing the availability of student aid.

I also speak on behalf of the students who addressed the Education Committee February 9:

- Nick Keogh, of the University of Oregon and president of the Oregon Students Association, who's filed a statement this morning
- Dylan Deloe, of Oregon State
- Katherine Braatz, of Portland State
- Hailey Hardcastle, of U of O
- Inez Inireo, of PSU

Nick tells me all the schools are in finals this week.

I began examining tax credit auctions a year ago, when the Revenue committees increased the funding Oregon Film may extend to individual projects. I testified before both committees that if the legislature wants to subsidize the film industry, then that's its prerogative. But tax credit auctions are a poor mechanism, because 7- or 8-percent of funding gets skimmed by the people who buy the credits. Former Senator DeBoer also testified against the auctions in the Senate Finance Committee.

Then I looked at the auctions that finance a portion of the Opportunity Grants program. I studied the lists of tax credit bidders. I watched the 2018 hearings. As Senator Boquist will recall, the auction was enacted as part of another bill. Its purpose then was to soak up revenue saved by disconnecting from the 2017 federal provision for pass-through entities. Under the system Oregon has developed, Rube Goldberg style, the legislature can't simply set appropriate tax policy without unrelated budgetary consequences.

Providing cheap tuition for all students used to be an imperative in every state. My undergrad degree cost me less than \$4,000 when I finished in 1981—about 12,000 in today's dollars.

We read the bills and follow the money

A tax credit auction for Opportunity Grants was a reasonable idea. In 2019, as my slide shows, auctions produced additional program revenue, because the market value of the tax credit was greater than its par value, thanks to the IRS treating purchases as charitable deductions, and the extra funding went to grants.

But the IRS changed the rules, denying that deduction. And so, beginning in 2020, the market value of auctioned tax credits dropped. And then this financing mechanism started costing students. Over the past four years, auctions have siphoned \$3.7 million into the pockets of tax credit buyers.

Fiscal year (ending 6/30)	2019	2020	2021	2022	2023	2020-2023
Opportunity Grants auction	14,000,000	14,000,000	14,000,000	14,000,000	13,983,500	55,983,500
Winning bids (gross)	14,578,505	12,740,714	13,010,848	13,495,926	13,193,436	52,440,924
DOR fee (0.25%)	36,446	31,852	32,527	33,764	32,984	131,126
Proceeds to HECC	14,542,059	12,708,862	12,978,321	13,462,162	13,160,452	52,309,798
Lost program revenue (\$)	542,059	(1,291,138)	(1,021,679)	(537,838)	(823,048)	(3,673,702)
Lost revenue (%)	3.9%	-9.2%	-7.3%	-3.8%	-5.9%	-6.6%

Fiscal year (ending 6/30)	2018	2019	2020	2021	2022	2023	2020-2023
Oregon Film auction	14,000,000	14,000,000	14,000,000	14,000,000	20,000,000	20,000,000	68,000,000
Auction bids (gross)	14,658,778	14,091,421	12,739,599	12,729,491	18,621,198	18,746,049	62,836,337
DOR fee (0.25%)	36,647	35,229	31,849	31,824	46,553	46,865	157,091.12
Proceeds to Oregon Film	14,622,131	14,056,192	12,707,750	12,697,667	18,574,645	18,699,184	62,679,246
Lost program revenue (\$)	622,131	56,192	(1,292,250)	(1,302,333)	(1,425,355)	(1,300,816)	(5,320,754)
Lost revenue (%)	4.4%	0.4%	-9.2%	-9.3%	-7.1%	-6.5%	-7.8%

Source: Tax Fairness Oregon from Department of Revenue

Including me. In December, I paid \$475 for a \$500 tax credit. When I file my taxes this spring, I'll get \$25 that should go to students. After administrative charges, about \$467 will be available for student grants. I'll send my check to the PSU scholarship fund. But US Bank has saved \$1.29 million in taxes over the past two years as an intermediate financier for two programs. The clients of a [Lake Oswego accounting firm](#) have saved \$298,800.

As Ways and Means Cochair Steiner told me in January, "That's dumb."

The other chairs involved in funding O Grants agree. I have discussed ensuring that Ways and Means picks up the funding with House Higher Education Chair Lively, Senate Education Chair Dembrow, Senator Steiner and Co-chair Sanchez, and Ways and Means Education Cochairs Frederick and McLain.

So the first part of the solution is for you to pass this bill as amended. It would end the auctions, already, as of 12/31/22. But, as I urged Chair Dembrow, taxpayers who bought credits in the secondary auction last month can take them on their 2022 returns.

Then I will continue reminding Ways and Means to absorb the \$28 million per biennium up to now financed by auctions. And to appropriate the \$16,500 left on the table after the 2022 auctions, authority it has under current law.

Who wins? The students, who get more funding for the same expenditure. The taxpayers, who see their legislature recognize that a change in circumstances sparked a change in law. And you, who have our thanks.

Finally I thank Jackie Hovey of DOR, who administers both auctions. She educated me and provided data. She assures me she has plenty else to do.