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# **Show Us the Money**

## **Full Disclosure Needed on Tax Breaks**

**Special Report**  
**November 2004**

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## Executive Summary

Since the recession of 2001, Georgia has faced substantial budget shortfalls due to declining revenues. Between FY 2001 and FY 2005, the state budget grew an estimated 5.4 percent compared to the 19 percent revenue growth needed to keep pace with the 2 percent annual population growth and 2.5 percent annual inflation rate. As a result, Georgia is faced with continuing substantial budget deficits despite recent efforts including significant budget cuts and modest new revenue sources.

Tax expenditures are tax law provisions that exempt certain individuals, income, goods, services or property from being taxed. Fiscally speaking, tax expenditures reduce Georgia's revenue collections and are therefore a form of government spending through the tax system. In FY 2004, Georgia's tax expenditures resulted in a revenue loss of approximately \$2 billion dollars with relatively no accountability. Unlike direct appropriations, tax expenditures enacted without sunset provisions are rarely reviewed by policymakers nor included in the public budget process.

Today 38 states conduct some form of tax expenditure reporting. The intention of these reports is to provide state legislators and the public with data required to make sound fiscal policy decisions. In developing a tax expenditure report, Georgia can learn from the best practices from model states like Louisiana and Texas by requiring the production of the report by state law, including critical data per each tax provision (e.g. five-year revenue loss data per provision), and making the report available on the web.

Georgia can ensure that tax expenditures are included in the public budget and policy debates by following a multi-step approach:

1. Require by Law a Tax Expenditure Report in the Governor's Budget Report
2. Perform Cost/Benefit Analysis of Tax Expenditures
3. Conduct Mandatory Periodic Review of All Tax Expenditures
4. Report on Forgone Revenue Sources
5. Perform Tax Incidence Analysis

## Introduction

In May 2004, the State of Georgia adopted its FY 2005 budget in the amount of \$16 billion to fund programs and services in areas including education, human services, public safety, transportation, and economic development.<sup>1</sup> Approximately 92% of the revenue to support that budget is raised through a variety of taxes:<sup>2</sup> the personal income tax, corporate income tax, sales tax, and others.

After detailed review, public hearings, intense debate and a special legislative session, the FY 2005 appropriations were agreed upon. In stark contrast, no attention was paid to the nearly \$2 billion in forgone revenues due to tax exemptions, exclusions, deductions, credits, and other preferential tax treatment.

Georgia policymakers made these budget and tax policy decisions during tight fiscal times. Since the recession of 2001, Georgia has faced substantial budget shortfalls due to declining revenues. Between FY 2001 and FY 2005, the state budget grew an estimated 5.4 percent compared to the 19 percent revenue growth needed to keep pace with the 2 percent annual population growth and 2.5 percent annual inflation rate.

This decline in revenues, combined with the additional demand for services from a growing population and a tepid economic recovery, resulted in substantial budget deficits. Georgia responded to the budget gaps with a mix of modest new revenues, significant spending cuts, and (now depleted) reserve funds, surplus funds, and other one-time revenue sources. Despite these efforts, the fiscal crisis is expected to continue over the next several years with state agencies proposing further cuts to both education and healthcare in their FY 2006 requests to the Governor.

Georgia's current fiscal crisis demands that policymakers thoroughly examine Georgia's broad scope of government spending. This can only be accomplished when direct spending and tax expenditures are fully disclosed and reviewed simultaneously. **To facilitate this cost-benefit analysis, Georgia should require by law the inclusion of a tax expenditure report in the Governor's annual budget.** Only with this additional analysis can our policymakers ensure that tax expenditures are used effectively to reach Georgia's desired policy goals.

This report offers an introduction to tax expenditures, why Georgia should track tax expenditures, lessons learned from other states, and key elements for an effective tax expenditure report.

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<sup>1</sup> The Governor's Budget Report FY 2005

<sup>2</sup> Other than taxes, the primary source of Georgia's revenue comes from the lottery and the federal government.

## What is a Tax Expenditure?

A tax expenditure is:

Any tax provision, State or Federal, that exempts, in whole or in part, certain persons, income, goods, services, or property from the effects of taxes established by law, including but not limited to, tax deductions, exemptions, deferrals, exclusions, allowances, credits, reimbursements, and preferential tax rates.<sup>3</sup>

We recommend that Georgia classify a tax expenditure as a provision that:

1. Has an impact on a tax that is applied statewide;
2. Confers preferential treatment;
3. Results in reduced tax revenue in the applicable fiscal year; and
4. Is not included in the budget as an expenditure;

The table below provides examples of different types of tax expenditures:

**Table 1**  
**Tax Expenditure Examples**

Tax Expenditure Type	Description	Examples <sup>4</sup>
Tax Credit	Applied after initial calculation of tax owing; reduces tax by amount of credit	Credits against corporate income tax for certain businesses that conduct research & development
Tax Exemption	Exempts category of good or service from tax	Food items purchased for home consumption are exempt from sales tax.

## Why Report on Tax Expenditures?

Georgia is compelled to produce a tax expenditure report to examine the cost of preferential tax treatment in terms of revenue loss, to hold tax expenditures accountable to the same scrutiny as direct appropriations, and to determine if Georgia has an equitable tax system.

### Cost

The magnitude of tax expenditures in Georgia demands more attention. In FY 2004, Georgia's tax expenditures resulted in a revenue loss of approximately \$2 billion dollars or an 11 percent reduction in the total budget dollars available for appropriations. Except for the 1989 sales tax rate increase from 3-4% and the 2003 House Bill 43 that increased tax on tobacco plus other modest increases, Georgia tax code changes from FY 1987 to FY 2005 have resulted in reductions in revenue.<sup>5</sup>

Tax expenditures are forgone tax dollars that result in a loss of state revenues available for appropriation to other government programs. For instance, each dollar that is not collected from a business due to a tax credit on the amount of product transported through a port facility (per Georgia tax code section 48-7-40-15), is a dollar that is not available for Georgia's education, health care, or transportation. In FY 2002, this tax credit resulted in a revenue loss of about \$40 million.<sup>6</sup> This "spending through the tax system" has the same fiscal effect as direct fund expenditures.

<sup>3</sup>Zahradnik, Bob. 2002. "An Introduction to Tax Expenditure Reporting" Center on Budget and Policy Priorities.

<sup>4-5</sup>Georgia State University Andrew Young School of Policy Studies Fiscal Research Program. 2002. "Revenue Implications for Georgia of Tax Changes Since 1987".

<sup>6</sup>2002 revenue loss estimates are from a one-time research project conducted by Georgia State University Andrew Yong School of Policy Studies Fiscal Research Program in cooperation with Georgia Department of Revenue, Office of Planning and Budget, and Governor's Office. 2002. "Revenue Implications for Georgia of Tax Changes Since 1987".

### **Accountability**

Although fiscally similar, tax expenditures differ from direct spending programs in terms of funding renewal and accountability. In contrast to direct spending programs which continue only if funds are appropriated for each budget period, the continuation of tax expenditures does not require legislative action. Without a sunset provision that sets a termination date for a specific tax law, tax expenditures endure unless action is taken. This means that some outdated or inappropriate tax expenditures may stay in effect beyond their originally intended purpose. In 1989, Georgia policymakers amended the tax code to exempt the rental of video tapes or motion picture films from sales tax, which results in an annual revenue loss of at least \$4.17 million.<sup>7</sup> Is this tax expenditure still warranted 15 years later? Without a sunset provision, this tax code change may endure forever without any further review and with continued revenue loss.

In contrast, directly funded programs must prove their effectiveness. Mandated by the 1993 Budget Accountability Act, results-based budgeting requires each state agency in Georgia to report on the progress of directly funded state programs. The data collected enables the Governor, state legislators, agency staff and citizens to compare program results to program expenditures each year and decide whether or not to modify policies, program strategies, and/or program funding.<sup>8</sup> There is no comparable accountability on the tax expenditure side.

### **Fairness**

Georgians have a right to know if ours is a fair and equitable tax system. Tax expenditures are implemented to encourage certain behaviors or to benefit certain groups or individuals but come at a price.

- Certain industries enjoy preferential treatment. During the 2004 legislative session, while state agencies were required to reduce their budget requests by 7.5 percent<sup>9</sup>, the legislature passed a sales tax exemption on ice purchased for storing poultry for an estimated annual revenue loss of \$900,000.<sup>10</sup>
- All Georgians benefit from the sales tax exemption on food, but this exemption is particularly favorable to working families who spend a greater portion of their income on food. Revenue loss from this sales tax exemption is about \$642 million annually.<sup>11</sup>
- Specific businesses and public institutions also received a financial boost through a sales tax exemption on construction materials and equipment with the revenue loss impact shown below.

**Table 2**  
**Projected State Revenue Loss From Sales Tax Exemption**  
**On Tangible Personal Property For Construction**

<b>Tax Expenditure Type</b>	<b>FY2005</b>	<b>FY2006</b>	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>
New World of Coke (HB1528) <sup>12</sup>	\$300,000	\$600,000	\$600,000	N/A	N/A
New Atlanta Symphony Hall (HB 1511) <sup>13</sup>	\$200,000	\$600,000	\$1.6 Million	\$1.2 Million	\$400,000

<sup>7</sup> Georgia State University Andrew Young School of Policy Studies Fiscal Research Program. 2002. "Revenue Implications for Georgia of Tax Changes Since 1987".

<sup>8</sup> The Governor's Budget Report, FY 2004

<sup>9</sup> The Governor's Budget Report, FY 2005

<sup>10</sup> Georgia Department of Audits and Accounts Fiscal notes on House Bill 1409, January 30, 2004

<sup>11</sup> Georgia State University Andrew Young School of Policy Studies Fiscal Research Program. 2002. "Revenue Implications for Georgia of Tax Changes Since 1987"

<sup>12</sup> Georgia Department of Audits and Accounts Fiscal notes on House Bill 1528, March 10, 2004

<sup>13</sup> Georgia Department of Audits and Accounts Fiscal notes on House Bill 1511, March 10, 2004

Is what Georgia gains through tax breaks worth the cost? Georgia's Department of Audits and Accounts stated in their fiscal notes on bills HB1528 and HB1511 respectively:

*"Whether or not the tourist attraction (new World of Coke) would have a net economic contribution above that achievable from alternative use of the same resources, had they been pursued, obviously cannot be settled by speculation or even by in-depth study of the anticipated profitable life of the tourist attraction alone."*

*"Whether or not that stimulus (i.e. sales tax exemption for construction of new Atlanta symphony hall) and response matches or exceeds those which alternative uses of Georgia's economic resources might have achieved is obviously hard to say."*

Georgians have a right to know who benefits from tax expenditures, by how much, and for what purpose. Tax expenditures for economic growth may or may not be more sound policy decisions than providing direct funding for education, children's health insurance or mental health services. We believe that the tax expenditure report will facilitate an open debate over scarce revenues and force policymakers to defend their tax policy decisions.

## **Lessons Learned from Other States**

Since 1975, both the U.S. Treasury and Joint Committee on Taxation have produced annual estimates of tax expenditures related to individual and corporate income tax. Starting in 1976, states began to report on tax expenditures. Today 38 states do some form of tax expenditure reporting.

Four states, Louisiana, Texas, Oregon and Minnesota, provide strong models and success stories for Georgia.

- Require the production of a tax expenditure report by state law.
- Include critical data per each tax provision, such as year enacted, legislative citation, purpose, fiscal impact.
- Make reports available on the web.

Each report contains some unique enhancements, such as:

- Louisiana includes an assessment of effectiveness for each provision.
- Texas includes tax incidence analysis to show who benefits from the tax expenditures by income level.
- Oregon organizes tax expenditure data by the same program categories as the Governor's budget programs.
- Minnesota tracks the cost of not subjecting services to sales tax.

For some states, tax expenditure reports facilitate the review and elimination of inefficient and/or inappropriate tax provisions, resulting in greater accountability by state government. The Texas tax exemption report provides greater transparency of the tax system, according to Eliot Shapleigh, the Texas Senator from El Paso:

*"I am proud to have sponsored legislation that led to the creation of Texas' biennial report on tax exemptions -- an important step forward in making government more transparent. The report has been invaluable in making clear exactly who pays Texas taxes, and who doesn't, by identifying and putting a price tag on exemptions, deductions, and special treatments."*

Oregon provides an example of a \$5 million success story. A 1985 law exempting all State Lottery winnings from personal income tax was only re-examined because of Oregon's tax expenditure report.

- In 1995, the Oregon legislative assembly amended the law mandating the preparation of the Governor's budget report (Budget Accountability Act) to include the preparation of and simultaneous release of a tax expenditure report.
- In December 1996, Oregon's first tax expenditure report for the 1997-1999 biennium was produced and showed that about \$44 million in forgone revenue was due to the personal income tax exemption on lottery winnings.
- During Oregon's 1997 legislative session, the state legislature changed the exemption so that only lottery prizes of \$600 or less were exempt from personal income tax (in line with federal tax code), reducing the revenue loss by approximately \$5 million per biennium (beginning with 1999-2001).<sup>14</sup>

Paul Warner, Legislative Revenue Officer to Oregon's House and Senate Revenue Committees, believes that the key to using the tax expenditure report to inform the revenue and budget policy process is to produce a report with good consistent methodology and to provide orientation to legislators on how to use the report. Legislators from both parties, especially those who serve on the revenue committees, are very familiar with the report and have made efforts to add sunset provisions to more tax expenditures. The tax expenditure report received particular attention during Oregon's recent revenue shortfalls. According to Mr. Warner, with revenue coming back only slowly, the report is likely to play a key part in the revenue discussion for the upcoming 2005 legislative session.<sup>15</sup>

## Key Elements of Tax Expenditure Report

The main purpose of the tax expenditure report is to provide information to state legislators, state agencies, and Georgians on which sound policy decisions can be made. The format and data in the report must facilitate an annual comprehensive legislative review of state tax provisions that provide preferential tax treatment for certain taxpayers or activities. The report should also serve as a reference by including an explanation, history and fiscal impact for each provision. To reach all Georgians, this report must be available both in print and on the appropriate government website (e.g., Georgia Department of Revenue, <http://www2.state.ga.us/Departments/DOR/>)

To accomplish these goals and follow best practices from states with effective reports (e.g., Texas, Louisiana, Oregon and Minnesota), the Georgia tax expenditure report should contain the following elements:

### 1. Overview

This section should clearly present the statutory requirements for the report, definition of a tax expenditure, the purpose of the tax expenditure report, data collection and calculation assumptions, and how to use the report.

### 2. Summary Analysis

This brief summary should discuss and/or demonstrate graphically per tax category the overall estimated revenue loss compared to actual revenue collections. (See Attachment A.)

### 3. Sunset Provision Analysis

In this analysis, the Governor should identify each tax expenditure with a full or partial sunset provision in the upcoming fiscal year and provide a recommendation to allow the sunset provision to take effect or to revise the sunset to a different date. (See Attachment B.)

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<sup>14</sup> State of Oregon 1997-1999 Tax Expenditure Report, p102-103

Oregon Legislative Assembly, 1997 Summary of Major Legislation, p. 109

<sup>15</sup> Based on October 12, 2004 conversation and October 19, 2004 e-mail correspondence with Paul Warner

#### 4. Five-year Estimated Revenue Loss

- a. **Summary of all taxes by tax program.** Listed in order of magnitude, this index provides a quick reference guide for revenue loss over five fiscal years (2 preceding years, current year, and 2 projected years), code section, year enacted, and page reference to detailed description. (See Attachment C.)
- b. **Summary by program/function.** To more effectively link the tax expenditures to the corresponding program area in the Governor's Budget (Education, Human Resources, Economic and Community Development, Natural Resources, and Transportation), the revenue loss data should also be presented by program/function. (See Attachment D.)

#### 5. Descriptive List of Expenditures by Tax Program

Descriptions of the tax bases for each of the tax programs should begin each chapter. At the start of each tax program it is necessary to begin with a clear definition of the "normal" tax base from which special treatment departs. For each tax expenditure the following data should be reported: tax code citation, year enacted, effective date, sunset date, description, purpose, estimated fiscal effect, beneficiaries, and evaluation (including who conducted the evaluation). (See Attachment E.)

### Steps to Inform the Budget and Policy Debate in Georgia

As Georgia decides how to respond to the current fiscal crisis, all sources of spending must be on the table. Policymakers must ensure Georgians that tax expenditures on the books make as much sense for Georgia today as they did when first enacted. Cuts in education and health care are not Georgia's only choices. Elimination of ineffective tax expenditures and closing of significant tax loopholes are viable sources of revenue. Therefore, to achieve full disclosure on all spending (appropriation or tax expenditure), to facilitate an informed budget process, and ultimately to ensure a fair and equitable tax system, Georgia should develop a tax expenditure report as the first step in this multi-step process:

#### 1. Include a Tax Expenditure Report in the Governor's Budget Report

Georgia law requires the Governor, through the Office of Planning and Budget, to prepare and submit a budget report to the General Assembly.<sup>16</sup> The budget report contains a wealth of data including:

"Detailed comparative statements of expenditures and requests for appropriations by funds, budget units, and budget classes, showing the expenditures for each of the two fiscal years last concluded, the budget of the current year, and the Governor's recommendations for appropriations for each budget unit for the next fiscal year. Following the lists of actual and proposed expenditures of each budget unit there shall be a brief explanation of the functions of the unit and comments on its policies and plans and on any considerable differences among the amounts expended and the amounts recommended, with such descriptive, quantitative, comparative, and other data as to work done, unit costs, and like information as is considered necessary or desirable."<sup>17</sup>

This same level of detail is necessary for tax expenditures. Therefore, Georgia law<sup>18</sup> should be amended to include the suggested key elements: overview, summary analysis, sunset provision analysis, five-year estimated revenue loss, and descriptive list of expenditures by tax program. (See Attachment F.)

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<sup>16</sup> Georgia Code Section 45-12-74

<sup>17</sup> Georgia Code Section 45-12-75 (5).

<sup>18</sup> Georgia Code Section 45-12-75

## 2. Perform Cost/Benefit Analysis of Tax Expenditures

Every dollar “spent” through tax expenditures is a dollar not available through appropriations. In 2002, business tax credits and incentives (not including sales tax exemptions) cost Georgia over \$134 million in lost tax revenue.<sup>19</sup> Do these incentives work? According to economist Robert G. Lynch, there is not sufficient evidence to support the contention that states must offer tax incentives to avoid losing a large number of businesses to other states, especially since state taxes are generally a small burden on businesses.<sup>20</sup> Other factors, such as access to an educated workforce, are believed to influence a company’s relocation decision.

In Georgia, the largest business tax incentive program is the Business Expansion and Support Act (BEST), which costs an estimated \$55 million in lost revenues annually.<sup>21</sup> BEST’s advocates promised that these incentives would promote economic development and result in a future net gain for the economy. A cost-benefit analysis of key tax provisions, such as BEST, would provide data for the debate:

- What is the cost for this program?
- What is Georgia gaining?
  - How many jobs have been created and maintained?
  - How has the \$14 million in revenue forgone for retraining credits<sup>22</sup> impacted Georgia’s economy?
  - How has the nearly \$12 million in revenue forgone for the investment credits<sup>23</sup> improved Georgia’s environment and safety?
- What is Georgia giving up, in terms of budget cuts to programs like education, health care, and mental health services to provide these incentives?

Policymakers and the public could engage in an more informed budget process with the data necessary to simultaneously weigh decisions regarding direct government spending and tax policy.

## 3. Conduct Mandatory Periodic Review of All Tax Expenditures

To assure the legislature performs regular periodic reviews to determine whether or not to continue tax expenditures, Georgia should require:

- Every new tax expenditure sunset within 5 years (or some other period of time ranging from 2 to 10 years that the General Assembly deems appropriate in light the tax expenditures’ purpose, beneficiaries, fiscal impact, and the economic conditions.)
- A procedure be adopted to review all existing tax expenditures and to amend each of them to include a sunset provision.

## 4. Report on Forgone Revenue Sources

A major issue in sales tax exemptions is services. In Georgia, 130 out of the 164 service categories identified by the Federation of Tax Administrators (1997) are exempt, failing to reach the largest service spending categories like health, legal and construction services.<sup>24</sup> The impact of this tax expenditure is further exacerbated as Georgia moves from an economy based on manufacturing to one based on services. In 1994, Georgia’s sales tax was levied on 58% of the economy compared to 69% in 1974.<sup>25</sup>

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<sup>19</sup>Georgia State University Andrew Young School of Policy Studies Fiscal Research Program. 2002. “Revenue Implications for Georgia of Tax Changes Since 1987”.

<sup>20</sup>Lynch, Robert G. 2004 “Rethinking Growth Strategies How State and Local Taxes and Services Affect Economic Development”. Economic Policy Institute

<sup>21-23</sup>Georgia State University Andrew Young School of Policy Studies Fiscal Research Program. 2002. “Revenue Implications for Georgia of Tax Changes Since 1987”.

<sup>24</sup>Bahl, Roy and Hawkins, Richard. 1998. “A Georgia Sales Tax for the 21st Century” Georgia State University Fiscal Research Center.

<sup>25</sup>Bahl, Roy and Hawkins, Richard. 1997. “The Sales Tax in Georgia: Issues and Options” Georgia State University Fiscal Research Center.

There are several arguments to recommend expanding the sales tax base to services. It would increase the overall elasticity of the sales tax base, make the tax less regressive, increase fairness across consumers, and generate significant revenue. If Georgia had levied a sales tax on all services in 1995, the state could have raised the same amount of revenue at a sales tax rate of 2.64 percent<sup>26</sup> (versus the current 4 percent rate). Georgia policymakers and citizens should have access to data that reveals the fiscal impact to exempting different types of services from sales tax in order to determine if this tax policy is still warranted given the revenue shortfalls predicted for the foreseeable future.

## 5. Perform Tax Incidence Analysis

Georgians deserve to know the distributional impact of tax burdens, or “who pays” state taxes. Currently, all states have methods for determining how much revenue proposed tax expenditures will cost. In contrast, less than 10 states have developed the capacity to analyze how proposed changes in their tax laws would affect the amount of taxes owed by different income groups. Only three states, Maine, Minnesota and Texas statutorily require that a “tax incidence” study be conducted. Yet at a federal level, both the Treasury Department and Congress’ Joint Committee on Taxation provide at least some data on how major tax proposals will affect taxpayers at a variety of economic levels.<sup>27</sup>

Georgia’s development and communication of tax incidence analysis at regular intervals would:

- Ensure that discussion about “who pays” and “who should pay” state taxes can be included in the tax policy debate.
- Facilitate lawmakers’ ability to formulate tax change proposals that affect tax burdens the way they intend.
- Ensure that tax changes complement rather than work against the priorities that have shaped spending decisions.

In summary, Georgia should begin this multi-step approach, starting with the statutorily required tax expenditure report, in order to ensure that tax expenditure data is included in the public budget and policy debate.

*The Georgia Budget and Policy Institute (GBPI) is an independent, nonprofit, non-partisan organization engaged in research and education on the fiscal and economic health of the state of Georgia. The GBPI provides reliable, accessible and timely analyses to promote greater state government fiscal accountability as a way to improve services to Georgians in need and to promote quality of life for all Georgians.*

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<sup>26</sup> Bahl, Roy and Hawkins, Richard. 1998. “A Georgia Sales Tax for the 21st Century” Georgia State University Fiscal Research Center.

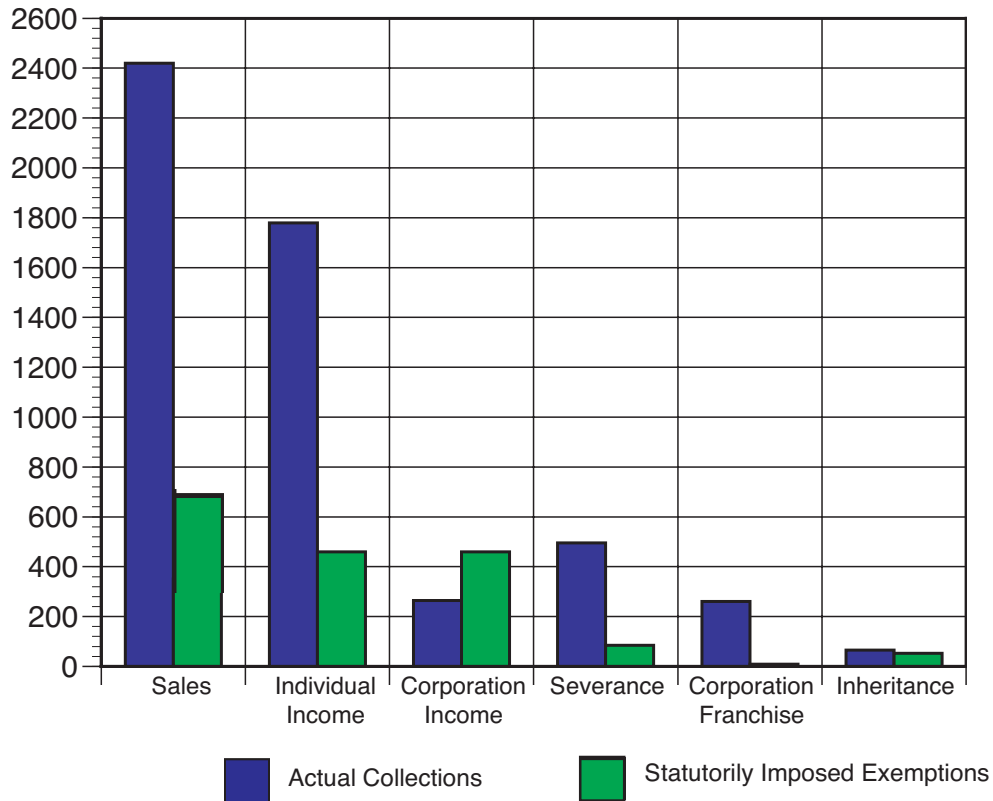
<sup>27</sup> Mazerov, Michael. 2002. “Developing the Capacity to Analyze the Distributional Impact of State and Local Taxes. Issues and Options for States”, Center on Budget and Policy Priorities.

## **Attachments**

<b>Attachment A</b>	Summary Analysis from Louisiana and Oregon
<b>Attachment B</b>	Sunset Provision Analysis from Oregon
<b>Attachment C</b>	Summary of all taxes by program from Louisiana and Oregon
<b>Attachment D</b>	Summary of all taxes by program from Oregon
<b>Attachment E</b>	Description of Expenditures from Louisiana and Oregon
<b>Attachment F</b>	Oregon Statute for Tax Expenditure Report

**Part 2. Overview**

**Analysis of Tax Collections vs. Exemptions  
 FY 2002-03**



	Sales	Individual Income	Corporation Income	Severance	Corporation Franchise	Inheritance
Actual Collections	\$ 2,271	\$ 1,870	\$ 198	\$ 432	\$ 187	\$ 53
Estimated Exemptions	\$ 691	\$ 486	\$ 512	\$ 81	\$ 9	\$ 32
Total Potential Collections	\$ 2,962	\$ 2,356	\$ 710	\$ 513	\$ 196	\$ 85
Percentage of tax loss	23%	21%	72%	16%	5%	38%

In Millions of Dollars

**Attachment A  
State of Oregon  
2003-2005 Tax Expenditure Report**

**SUMMARY**

This report describes 350 individual tax expenditures currently specified in Oregon law. Of those, 117 are related to local property taxes and 192 to Oregon’s personal and corporation income taxes. The remaining 41 are related to various other state tax programs.

One hundred seven of the 192 income tax expenditures result from Oregon’s connection to the federal income tax code. By adopting the federal definition of taxable income, Oregon also adopts all of the exclusions and deductions from income that are part of the federal personal and corporation income taxes. Since 1997, Oregon automatically connects to the federal definition of taxable income. This connection greatly reduces the costs for taxpayers to comply with Oregon tax law and simplifies tax administration. Oregon could “disconnect” from individual provisions in the federal tax code, but doing so would also increase compliance and administration costs and could create confusion.

For the 2001–03 biennium total tax expenditures will result in the “spending” of about \$25 billion through Oregon’s tax code. Over the same period the state of Oregon and local taxing districts will collect roughly \$18 billion in taxes for spending on various state and local programs. This indicates that governments in Oregon “spend” more through special provisions in the tax code than they do through direct outlays.

The table below shows estimates of tax expenditures by tax program for the 2001–03 and 2003–05 biennia. The table also shows estimates of the total revenues raised in 2001–03 by each tax. The largest tax expenditures occur in the property tax program, where aggregate tax expenditures of over \$18.1 billion per biennium are nearly three times the amount of revenue actually raised. The largest property tax expenditures are the exemption of intangible personal property (\$10.2 billion), the exemption of federal property (\$3.5 billion), and the exemption for state and local property (\$905 million).

For income taxes (personal and corporation), tax expenditures in 2001–03 total nearly \$7.0 billion, roughly 82 percent of actual tax collections. The largest expenditures are for Oregon’s personal exemption credit (\$810 million), the deduction of home mortgage interest (\$787 million), and the deduction for pension contributions and earnings (\$612 million).

The remainder of this report provides more detailed descriptions and revenue impact estimates for each tax expenditure currently specified in Oregon law.

<b>OREGON REVENUES AND TAX EXPENDITURES BY TAX PROGRAM</b>				
<b>(Millions of Dollars)</b>				
<b>Tax Program</b>	<b>Number of Tax Expenditures</b>	<b>Estimated Revenues 2001-03</b>	<b>Estimated Tax Expenditures</b>	
			<b>2001-03</b>	<b>2003-05</b>
<b>Income (Total)</b>	<b>192</b>	<b>\$8,456.7</b>	<b>\$6,949.8</b>	<b>\$7,714.4</b>
Federal Exclusions	64		\$3,170.4	\$3,515.6
Federal Deductions	43		\$1,685.9	\$1,929.1
Oregon Subtractions	29		\$1,112.3	\$1,179.1
Oregon Credits	56		\$981.2	\$1,090.6
<b>Property</b>	<b>117</b>	<b>\$6,633.7</b>	<b>\$18,197.8</b>	<b>\$19,253.3</b>
Gas and Use Fuel	5	\$791.7	\$10.6	\$13.1
Weight-Mile	7	\$360.5	\$11.5	\$12.3
Insurance	7	\$112.3	\$11.1	\$4.5
Cigarette & Other Tobacco	5	\$415.6	\$1.2	\$2.3
Beer and Wine	2	\$25.1	\$1.6	\$1.9
Other State Taxes	15	\$1,665.1	\$4.4	\$4.6
<b>All Taxes</b>	<b>350</b>	<b>\$18,460.6</b>	<b>\$25,187.9</b>	<b>\$27,006.3</b>

**Attachment B  
State of Oregon  
2003-2005 Tax Expenditure Report**

**TAX EXPENDITURES SCHEDULED FOR SUNSET IN 2003-05**

As part of the 1995 Budget Accountability Act, the Governor is required to identify each tax expenditure that has a full or partial sunset occurring in the coming biennium and prepare a recommendation that indicates whether the full or partial sunset should be allowed to take effect. Below are those tax expenditures and the Governor's recommendations.

TAX EXPENDITURE	TYPE	OREGON STATUTE	SUNSET	2003-05 REVENUE IMPACT (\$000)	GOVERNOR'S RECOMMENDATION
1.139 Contributions of Computer Equipment	Income Tax Credit	317.151	12/31/2003	100	Allow Sunset
1.155 Investment in Rural Enterprise Zones (Income Tax)	Income Tax Credit	Note: 285B.689	12/31/2004	Less than 50	Extend Sunset
1.164 First Break Program	Income Tax Credit	315.259	12/31/2004	100	Allow Sunset
2.013 Long-Term Rural Enterprise Zones (Property Tax)	Property Tax Exemption	Note: 285B.689	12/31/2004	1,330	Extend Sunset
2.036 Nonprofit Low-Income Rental Housing	Property Tax Exemption	307.541	6/30/2004	6,500	Extend Sunset

**Attachment C  
State of Louisiana  
Department of Revenue  
2003-2004 Tax Exemption Budget**

**Summary of all taxes** (Statutorily imposed exemptions only) **Five-Year Revenue Loss**

Page	Tax type (Listed in order of magnitude by FYE 6-00)	FYE 6-01	FYE 6-02	FYE 6-03	FYE 6-04 (Projected)	FYE 6-05 (Projected)
19	Income tax - corporation	\$ 449,408,000	\$ 458,920,000	\$ 511,932,650	\$ 526,644,050	\$ 541,985,450
23	Income tax - individual	\$ 432,413,000	\$ 461,558,000	\$ 486,021,000	\$ 4386,808,750	\$ 398,388,500
37	Sales tax	\$ 336,059,436	\$ 350,090,503	\$ 691,233,767	\$ 390,998,545 <sup>1</sup>	\$ 572,520,725 <sup>1</sup>
39	Natural resources - severance tax	\$ 75,880,000	\$ 84,879,500	\$ 81,163,000	\$ 83,965,500	\$ 82,665,000
40	Inheritance tax	\$ 63,587,800	\$ 52,779,000	\$ 31,769,500	\$ 12,707,800	\$ 2,541,560
41	Tax exemption & incentive contracts	\$ 46,670,105	\$ 31,500,378	\$ 55,830,562	No data	No data
44	Corporation franchise tax	\$ 8,495,000	\$ 8,750,000	\$ 9,023,000	\$ 9,291,000	\$ 9,438,000
45	Petroleum products taxes	\$ 6,914,000	\$ 6,969,200	\$ 7,182,200	\$ 7,205,000	\$ 7,205,000
47	Tobacco tax	\$ 5,847,000	\$ 7,458,500	\$ 7,441,000	\$ 7,700,000	\$ 7,700,000
48	Gift tax	\$ 3,299,000	\$ 3,399,000	\$ 3,510,500	\$ 3,557,000	\$ 3,801,000
49	Liquors - alcoholic beverage taxes	\$ 976,000	\$ 973,000	\$ 1,009,100	\$ 1,015,000	\$ 1,015,000
51	*Public utilities and carriers taxes	\$ 675,000	\$ 695,000	\$ 695,000	\$ 695,000	\$ 695,000
51	*Telecommunication tax	\$ 29,900	\$ 29,900	\$ 30,000	\$ 30,000	\$ 30,000
51	*Hazardous waste disposal tax	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000
	<b>Total tax revenue loss</b>	\$1,430,274,241	\$1,468,021,981	\$1,886,861,279	\$1,430,637,645	\$1,628,005,235

<sup>1</sup>The tax revenue loss has been adjusted from the amounts shown on page 37 to reflect the prohibition of taxation per the Constitution of Louisiana, Article VII, Section 2.2 (sales of food for home consumption, prescription drugs, and on electricity, natural gas and water sold to consumers for residential use).

\* Included on the miscellaneous tax table

**Attachment C**  
**State of Oregon**  
**2003-2005 Tax Expenditure Report**

**TABLE 1: INDEX OF TAX EXPENDITURES BY TAX PROGRAM**

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2001-03	2003-05	
<b>INCOME TAX</b>						
<i>Federal Exclusions</i>						
1.001	Scholarship and Fellowship Income	Education	1954	316.048	9,600	11,200
1.002	Interest on Education Savings Bonds	Education	1988	316.048	100	200
1.003	Earnings on Education Savings Accounts	Education	1997	316.048	2,200	4,000
1.004	Qualified Tuition Programs (Federal)	Education	1996	316.048	1,000	1,700
1.005	Public Assistance Benefits	Human Resources	Pre-1955	316.048	9,800	10,100
1.006	Certain Foster Care Payments	Human Resources	1982	316.048	3,500	4,200
1.007	Employee Adoption Benefits	Human Resources	1996	316.048	Less than 50	Less than 50
1.008	Cafeteria Plan Benefits	Human Resources	1974	316.048	87,000	108,500
1.009	Employer Paid Medical Benefits	Human Resources	1918	316.048	532,800	634,400
1.010	Compensatory Damages	Human Resources	Pre-1955	316.048	200	200
1.011	Pension Contributions and Earnings	Human Resources	1921	316.048	611,900	633,900
1.012	Hospital Insurance (Part A)	Human Resources	1965	316.048	132,400	158,300
1.013	Supplementary Medical Insurance (Part B)	Human Resources	1970	316.048	78,500	96,400
1.014	Special Benefits for Disabled Coal Miners	Human Resources	1969	316.048	Less than 50	Less than 50
1.015	Social Security Benefits (Federal)	Human Resources	1938	316.048	226,900	238,600
1.016	Accelerated Depreciation of Buildings	Economic/Community	1954	316.048/317.013	8,800	7,500
1.017	Accelerated Depreciation of Equipment	Economic/Community	1954	316.048/317.013	284,100	275,700
1.018	Income Earned Abroad by U.S. Citizens	Economic/Community	1926	316.048	19,800	23,500
1.019	Inventory Property Sales Source-Rule Exception	Economic/Community	1921	317.013	21,500	24,900
1.020	Magazine, Paperback, and Record Returns	Economic/Community	1978	316.048/317.013	100	100
1.021	Cash Accounting, Other than Agriculture	Economic/Community	1916	316.048/317.013	2,000	2,300
1.022	Regional Economic Development Incentives	Economic/Community	1993	316.048/317.013	100	100
1.023	Income of Controlled Foreign Corporations	Economic/Community	1909	317.013	18,400	20,800
1.024	Extraterritorial Income Exclusion	Economic/Community	2000	316.048/317.013	19,000	24,900
1.025	Cancellation of Debt for Non-Farmers	Economic/Community	Pre-1955	316.048/317.013	Less than 50	Less than 50
1.026	Employer Paid Group Life Insurance Premiums	Economic/Community	1920	316.048	17,400	19,600
1.027	Employer Paid Accident and Disability Insurance	Economic/Community	1954	316.048	17,500	20,300
1.028	Employer Provided Dependent Care	Economic/Community	1981	316.048	5,000	6,500
1.029	Miscellaneous Fringe Benefits	Economic/Community	1984	316.048	45,100	48,500
1.030	Employee Meals and Lodging (Non-Military)	Economic/Community	1918	316.048	6,300	7,000
1.031	Employee Stock Ownership Plans	Economic/Community	1974	316.048/317.013	5,200	6,100
1.032	Employee Awards	Economic/Community	1986	316.048	800	800
1.033	Employer Provided Education Benefits	Economic/Community	1997	316.048	4,200	6,100
1.034	Spread on Acquisition of Stock	Economic/Community	1981	316.048	3,800	5,900
1.035	Accelerated Depreciation of Rental Housing	Economic/Community	1954	316.048/317.013	18,800	22,300
1.036	Capital Gains on Home Sales	Economic/Community	1997	316.048	129,700	140,900
1.037	Veteran's Benefits and Services	Economic/Community	1917	316.048	22,700	24,500
1.038	Military and Dependents CHAMPUS/TRICARE Insurance	Economic/Community	1925	316.048	14,800	15,700
1.039	Agriculture Cost-Sharing Payments	Natural Resources	1978	316.048/317.013	200	200
1.040	Cancellation of Debt for Farmers	Natural Resources	1986	316.048	400	400
1.041	Energy Conservation Subsidies (Federal)	Natural Resources	1992	316.048	100	100
1.042	Contributions in Aid of Construction for Utilities	Transportation	1996	317.013	100	100
1.043	Employer Paid Transportation Benefits	Transportation	1992	316.048	26,100	27,700
1.044	Life Insurance Investment Income	Insurance/Financial	1913	316.048/317.013	172,000	187,200
1.045	Workers' Compensation Benefits (Non-Medical)	Insurance/Financial	1918	316.048	41,100	45,600
1.046	Workers' Compensation Benefits (Medical)	Insurance/Financial	1918	316.048	28,000	29,700
1.047	Credit Union Income	Insurance/Financial	1951	317.013	3,800	4,100

**Attachment D  
State of Oregon  
2003-2005 Tax Expenditure Report**

**TABLE 2: INDEX OF TAX EXPENDITURES BY PROGRAM/FUNCTION**

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2001-03	2003-05	
<b>EDUCATION</b>						
<i>Income Tax</i>						
1.001	Scholarship and Fellowship Income	Exclusion	1954	316.048	9,600	11,200
1.002	Interest on Education Savings Bonds	Exclusion	1988	316.048	100	200
1.003	Earnings on Education Savings Accounts	Exclusion	1997	316.048	2,200	4,000
1.004	Qualified Tuition Programs (Federal)	Exclusion	1996	316.048	1,000	1,700
1.065	Interest on Student Loans	Deduction	1997	316.048	6,100	8,000
1.066	Charitable Contributions: Education	Deduction	1917	316.695/317.013	44,400	52,900
1.067	Qualified Higher Education Expenses	Deduction	2001	316.048	11,200	24,100
1.112	Land Donated to Schools	Subtraction	1999	316.852/317.488	Less than 50	Less than 50
1.113	Oregon Qualified Tuition Savings	Subtraction	1999	348.844/316.680	4,700	9,700
1.114	Scholarship Awards Used for Housing Expenses	Subtraction	1999	316.846	Less than 50	Less than 50
1.137	Child Development Program Contributions	Credit	1991	315.234	Less than 50	0
1.138	Youth Apprenticeship Sponsorship	Credit	1991	315.254	0	0
1.139	Contributions of Computer Equipment	Credit	1985	317.151	100	100
1.140	Employer Provided Scholarships	Credit	2001	315.237	Less than 50	200
<i>Property Tax</i>						
2.001	Academies, Day Care and Student Housing	Full	1957	307.145	15,000	16,300
2.002	Fraternalities, Sororities, Cooperatives	Partial	1973	307.460	470	500
2.003	Student Housing Furnishings	Full	1957	307.195	80	80
2.004	Leased Student Housing Publicly Owned	Full	1947	307.110(3)(a)	10,800	11,500
2.005	Higher Education Parking Space	Full	1989	307.095(3)	4,000	4,200
2.006	Private Libraries for Public Use	Full	1854	307.160	Less than 50	Less than 50
<b>HUMAN RESOURCES</b>						
<i>Income Tax</i>						
1.005	Public Assistance Benefits	Exclusion	Pre-1955	316.048	9,800	10,100
1.006	Certain Foster Care Payments	Exclusion	1982	316.048	3,500	4,200
1.007	Employee Adoption Benefits	Exclusion	1996	316.048	Less than 50	Less than 50
1.008	Cafeteria Plan Benefits	Exclusion	1974	316.048	87,000	108,500
1.009	Employer Paid Medical Benefits	Exclusion	1918	316.048	532,800	634,400
1.010	Compensatory Damages	Exclusion	Pre-1955	316.048	200	200
1.011	Pension Contributions and Earnings	Exclusion	1921	316.048	611,900	633,900
1.012	Hospital Insurance (Part A)	Exclusion	1965	316.048	132,400	158,300
1.013	Supplementary Medical Insurance (Part B)	Exclusion	1970	316.048	78,500	96,400
1.014	Special Benefits for Disabled Coal Miners	Exclusion	1969	316.048	Less than 50	Less than 50
1.015	Social Security Benefits (Federal)	Exclusion	1938	316.048	226,900	238,600
1.068	Charitable Contributions: Health	Deduction	1917	316.695/317.013	32,700	39,000
1.069	Medical and Dental Expenses	Deduction	1942	316.695	116,900	140,700
1.070	Self-Employment Health Insurance	Deduction	1986	316.048	23,700	36,800
1.071	Medical Savings Accounts (Federal)	Deduction	1996	316.048	400	400
1.072	IRA Contributions and Earnings	Deduction	1974	316.048	97,900	114,000
1.073	Keogh Plan Contributions and Earnings	Deduction	1962	316.048	39,400	42,400
1.074	Removal of Architectural Barriers	Deduction	1976	316.048/317.013	Less than 50	Less than 50
1.116	JOBS Plus Participants	Subtraction	1995	316.680(1)(e)	Less than 50	Less than 50
1.117	Medical Savings Accounts (Oregon)	Subtraction	1997	316.743	Less than 50	0
1.118	Physicians in "Medically Disadvantaged" Areas	Subtraction	1973	316.076	0	0
1.119	Additional Deduction for Elderly or Blind	Subtraction	1989	316.695(7)	10,800	8,700

## Sales Tax

**41. First \$50,000 of new farm equipment used in poultry production**

This exclusion allows farmers engaged in poultry production relief from the general sales tax on the first \$50,000 of equipment purchased for use in poultry production. The purpose of this exclusion is to extend to poultry farmers similar tax relief extended to other farmers under R.S. 47:305.25 [See number 115, Sales Tax Section].

**Legal Citation:** R.S. 47:301(13)(c)  
**Origin:** Acts 1991, No. 388  
**Effective Date:** July 8, 1991

**Beneficiaries:** Poultry farmers.

**Administration:** The purpose of this exclusion is achieved in a fiscally effective manner.

Estimated Fiscal Effect	
FYE 6-04	FYE 6-05
\$150,000	\$153,000

**42. Admission to athletic or entertainment events by educational institutions and membership dues of certain nonprofit civic organizations**

This exclusion allows the tax-free sale of tickets for admission to all athletic events by schools, colleges, and universities. In 1976, this exclusion was amended by Act 481 to also exclude the membership dues for access to the facilities of nonprofit civic organizations, such as the Young Men's Christian Association (YMCA), Young Women's Christian Association (YWCA), Catholic Youth Organization (CYO), etc. The purpose of this exclusion is to provide financial assistance to qualifying organizations.

**Legal Citation:** R.S. 47:301(14)(b)(i)  
**Origin:** Acts 1948, No. 9  
 Amended Acts 1976,  
 No. 481

**Effective Date:** June 7, 1948

**Beneficiaries:** Schools and nonprofit organizations.

**Administration:** The purpose of this exclusion is achieved in a fiscally effective manner.

Estimated Fiscal Effect	
FYE 6-04	FYE 6-05
\$2,143,000	\$2,186,000

Income Group (Quintiles)	Taxpayers		Mean Subtraction
	Number	Percent	
<b>Below \$10,000</b>	1,258	3.4%	\$7,193
<b>\$10,000 - \$22,000</b>	7,145	19.1%	\$11,954
<b>\$22,000 - \$37,000</b>	9,069	24.2%	\$17,278
<b>\$37,000 - \$63,000</b>	10,509	28.0%	\$21,563
<b>Above \$63,000</b>	9,511	25.4%	\$25,319
<b>Total</b>	37,492	100.0%	\$19,166

*\*Does not total 100 percent due to rounding.*

EVALUATION: Not evaluated.

### **1.133 OREGON STATE LOTTERY PRIZES**

Oregon Statute: 461.560  
Sunset Date: None  
Year Enacted: 1985

	Corporation	Personal	Total
2001-03 Revenue Impact:	Not Applicable	\$46,300,000	\$46,300,000
2003-05 Revenue Impact:	Not Applicable	\$44,100,000	\$44,100,000

**DESCRIPTION:** Originally, all prizes awarded by the State Lottery were exempt from the Oregon personal income tax. In 1997, the Legislature changed the law so that only prizes up to and including \$600 are exempt. Currently, prizes greater than \$600 are taxable.

**PURPOSE:** To enable ease of play and prize redemption for Lottery game participants and to support ease of selling and prize payment for Lottery game retailers. This \$600 threshold conforms with IRS tax reporting requirements for lottery prize claims. The tax exemption also recognizes that individuals who choose to play the Lottery are contributing to state revenues whenever they purchase a non-winning ticket and, therefore, should not be taxed when they win a prize of \$600 or less.

**WHO BENEFITS:** Oregon Lottery players who win a prize of \$600 or less are the most direct beneficiaries. However, since Lottery prizes up to and including \$600 can be redeemed at Lottery retailer locations, retailers also benefit by avoiding the labor/expense that would be needed to collect tax reporting information from each player who redeems a prize. Conversely, taxation of prizes of \$600 or less would be a disincentive to play or sell these games, thereby severely reducing sales and state revenues.

**EVALUATION:** This tax expenditure achieves its purpose and helps support the statutory purpose of the Lottery: to generate revenue for the public purpose without the imposition of additional or increased taxes. Eliminating this tax expenditure would be a major disincentive to players and would place a huge burden on Lottery retailers. Approximately 83 percent of all traditional game Lottery prizes won and 100 percent of all Video Lottery game prizes

**Attachment E**  
**State of Oregon**  
**2003-2005 Tax Expenditure Report**  
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Income Tax  
Oregon Subtractions

won are \$600 or less, and payable at Lottery retailers (3,300 statewide). Consequently, the burden placed on the player to provide and the retailer to collect tax reporting information for every prize won and paid would be immense. It stands to reason that many retailers would discontinue carrying Lottery products and many consumers would no longer play games if the tax exemption on prizes of \$600 or less were eliminated, thereby drastically reducing sales and state revenues. [*Evaluated by the State Lottery.*]

**1.134 FEDERAL INCOME TAX DEDUCTION**

Oregon Statutes: 316.680 and 316.695

Sunset Date: None

Year Enacted: 1929; modified in 2000 (Measure 88); modified in 2001 (HB 2550); modified in 2002 (HB 4054)

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	\$482,300,000	\$482,300,000
2003–05 Revenue Impact:	Not Applicable	\$597,700,000	\$597,700,000

**DESCRIPTION:** Prior to 2002, taxpayers were allowed to deduct up to \$3,000 of federal income taxes paid or accrued from Oregon personal taxable income (up to \$1,500 for spouses filing their Oregon tax returns separately). In November 2000, voters passed Measure 88, which increased the limit from \$3,000 to \$5,000. The new limit was to be effective for tax years beginning on or after January 1, 2002. For tax years beginning on or after January 1, 2003, the \$5,000 threshold was to be indexed to inflation. However, during the Third Special Session of 2002, the Legislature modified this subtraction by phasing in the limit between 2002 and 2007. For 2002, the limit is \$3,250 (\$1,625 for spouses filing their returns separately). For tax year 2003 through 2007, the limit is as follows: \$3,500; \$4,000; \$4,500; \$5,000; \$5,500. The limit is half this amount for spouses filing their returns separately.

Under HR 1836, the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), taxpayers received advanced refund checks in the summer of 2001 and are allowed an additional federal credit as a result of the new federal 10 percent tax bracket. Because federal income taxes are reduced, the federal income tax subtraction would be reduced, resulting in greater Oregon tax liability. The 2001 Legislature passed HB 2550, which allows taxpayers to ignore the advanced refund check and credit when computing their federal tax subtraction for 2001.

**PURPOSE:** To provide tax relief to Oregonians who pay federal income taxes. The deduction is based on the supposition that federal income taxes are involuntary payments that reduce the ability to pay Oregon taxes.

**WHO BENEFITS:** Each year since 1990, approximately 75 percent of Oregon taxpayers have claimed a subtraction for federal income taxes paid. The average amount of the subtraction in 2000 was \$2,200. The percentage of Oregon taxpayers claiming the maximum amount of \$3,000 (\$1,500 if married filing separately) has risen slightly from 27.7 percent in 1990 to 36 percent in 2000.

## APPENDIX A: OREGON STATUTE REQUIRING TAX EXPENDITURE REPORT

68th OREGON LEGISLATIVE ASSEMBLY—1995 Regular Session

Oregon Laws 1995, Chapter 746

SECTION 61. Sections 62, 63, and 65 of this Act may be cited as the Budget Accountability Act.

SECTION 62. (1) The Legislative Assembly hereby declares that the ability to make fiscally sound and effective spending decisions has been enhanced by requiring agencies and programs to develop performance measures and to evaluate all General Fund, State Lottery Fund and other expenditures in accordance with these performance measures. Fiscal pressure on this state requires even greater accountability and necessitates a review of the fairness and efficiency of all tax deductions, tax exclusions, tax subtractions, tax exemptions, tax deferrals, preferential tax rates and tax credits. These types of tax expenditures are similar to direct government expenditures because they provide special benefits to favored individuals or businesses, and thus result in higher tax rates for all individuals.

(2) The Legislative Assembly further finds that 76 percent of property in this state is exempt from property taxation and that income tax expenditures total billions of dollars per biennium. An accurate and accountable state budget should reflect the true costs of tax expenditures and should fund only those tax expenditures that are effective and efficient uses of limited tax dollars.

(3) The Legislative Assembly declares that it is in the best interest of this state to have prepared a biennial report of tax expenditures that will allow the public and policy makers to identify and analyze tax expenditures and to periodically make criteria-based decisions on whether the expenditures should be continued. The tax expenditure report will allow tax expenditures to be debated in conjunction with on-line budgets and will result in the elimination of inefficient and inappropriate tax expenditures, resulting in greater accountability by state government and a lowering of the tax burden on all taxpayers.

SECTION 63. As used in ORS 291.202 to 291.222, "tax expenditure" means any law of the Federal Government or this state that exempts, in whole or in part, certain persons, income, goods, services or property from the impact of established taxes, including but not limited to tax deductions, tax exclusions, tax subtractions, tax exemptions, tax deferrals, preferential tax rates and tax credits.

SECTION 64. ORS 291.202 is amended to read:

291.202. (1) Except as otherwise provided in ORS 291.222, the Governor shall prepare in each even-numbered year [*a budget report*] for the biennium beginning July 1 of the following year:

- (a) A budget report; and
- (b) A tax expenditure report.

(2) The Oregon Department of Administrative Services shall advise and assist the Governor in the preparation of the budget report and tax expenditure report and shall perform such duties in connection therewith as the Governor requires.

(3) The Department of Revenue shall advise and assist the Governor in the preparation of the tax expenditure report.

SECTION 65. (1) Not later than November 10 of each even-numbered year, the Governor shall cause the tax expenditure report to be compiled and prepared for printing.

(2) In the tax expenditure report, the Governor shall:

- (a) List each tax expenditure;
- (b) Identify the statutory authority for each tax expenditure;
- (c) Describe the purpose of each tax expenditure;
- (d) Estimate the amount of revenue loss caused by each tax expenditure for the coming biennium;
- (e) List the actual amount of revenue loss in the preceding biennium for each tax

**Attachment F**  
**State of Oregon, 2003-2005 Tax Expenditure Report, page 2 of 4**

Appendix A

expenditure or an estimate if the actual amount cannot be determined;

(f) Determine whether each tax expenditure is the most fiscally effective means of achieving each purpose of the tax expenditure;

(g) Determine whether each tax expenditure has successfully achieved the purpose for which the tax expenditure was enacted and currently serves, including an analysis of the persons that are benefited by the expenditure; and

(h) Categorize each tax expenditure according to the programs or functions each tax expenditure supports.

SECTION 66. ORS 291.210 is amended to read:

291.210. (1) The Oregon Department of Administrative Services, in connection with its direct studies of the operations, plans and needs of state agencies and of the existing and prospective sources of income, shall prepare a tentative budget plan **and tentative tax expenditure report** for the two fiscal years for which a budget report [is] **and tax expenditure report** are required to be prepared.

(2) **The Department of Revenue shall advise and assist in the preparation of the tentative tax expenditure report.**

SECTION 67. ORS 291.214 is amended to read:

291.214. The Governor, during the preparation of the budget report and before its submission to the Legislative Assembly, shall:

(1)(a) Examine the budget forms filed by the various agencies [*. The Governor*] **and** may make or cause to be made such further investigations by the Oregon Department of Administrative Services, with such hearings before the Governor or any state agency, as the Governor deems advisable, and may make such changes or revisions in policy and program and in specific details of the tentative budget report **or tentative tax expenditure report** as the Governor finds warranted ; **and** [.]

(b) **Identify each tax expenditure that has a full or partial sunset that, if allowed to take effect, will have a fiscal impact on the state or on school districts for the next biennium, and shall prepare a recommendation as to each tax expenditure identified under this paragraph that indicates the Governor's opinion on**

whether the full or partial sunset of the tax expenditure should be allowed to take effect as scheduled or should be revised to a different date.

(2) As used in this section:

(a) "Full sunset" means any provision that completely eliminates an existing tax expenditure on a specified date.

(b) "Partial sunset" means any provision that reduces the amount of an existing tax expenditure or that alters the eligibility requirements for the expenditure as of a specified date.

SECTION 67a. **If Senate Bill 251 becomes law, section 19, chapter 610, Oregon Laws 1995 (Enrolled Senate Bill 251) (amending ORS 291.214), is repealed.**

SECTION 68. ORS 291.216 is amended to read:

291.216. (1) Not later than November 10 of each even-numbered year the Governor shall cause the budget report to be compiled and prepared for printing.

(2) The budget report shall include a budget message prepared by the Governor, including recommendations of the Governor with reference to the fiscal policy of the state government for the coming biennium, describing the important features of the budget plan, embracing a general budget summary setting forth the aggregate figures of the budget report so as to show a balanced relation between the total proposed expenditures and the total anticipated income, with the basis and factors on which the estimates are made, the amount to be borrowed, and other means of financing the estimated expenditures for the ensuing biennium, compared with the corresponding figures for at least the last completed biennium and the current biennium.

(3) The budget plan shall be supported by explanatory schedules or statements, classifying the expenditures reported therein, both past and proposed, by organization units, objects and funds, and the income by organization units, sources and funds, and the proposed amount of new borrowing as well as proposed new tax or revenue sources, including a single comprehensive list of all proposed increases in fees, licenses and assessments assumed in the budget plan.

(4) The budget plan shall be submitted for all dedicated funds, as well as the state General Fund, and shall include the estimated amounts of

federal and other aids or grants to state agencies or activities provided for any purpose whatever, together with estimated expenditures therefrom.

(5) The budget report shall embrace the detailed estimates of expenditures and revenues. It shall include statements of the bonded indebtedness of the state government, showing the actual amount of the debt service for at least the past biennium, and the estimated amount for the current biennium and the ensuing biennium, the debt authorized and unissued, the condition of the sinking funds and the borrowing capacity. **It shall contain the Governor's recommendations concerning tax expenditures identified under ORS 291.214.** It shall also contain any statements relative to the financial plan which the Governor may deem desirable or which may be required by the legislature.

(6) The budget plan shall use the estimated revenues under ORS 291.342 for the fiscal year in which the plan is submitted as the basis for total anticipated income under subsection (2) of this section, subject to such adjustment as may be necessary to reflect accurately projections for the next biennium.

(7) As supplemental information to the budget report, the Governor shall publish an existing level tentative budget plan for the two fiscal years for which the budget report is required. This summary budget shall reflect only existing revenues estimated under subsection (6) of this section; subject to such adjustment as may be necessary to reflect accurately projections for the next biennium. The supplemental information to the budget report shall be submitted at the same time as the budget report.

SECTION 69. ORS 291.218 is amended to read:

291.218. Except when the Governor under whose supervision the budget report [*has*] **and the tax expenditure report have** been prepared will be succeeded in office in January next following:

(1) The Oregon Department of Administrative Services shall have as many copies of the approved budget report **and the tax expenditure report** printed as the Governor directs.

(2) Not later than December 1 of each even-numbered year, the Governor shall transmit a copy [*thereof*] **of each report** to each member of the legislature who is to serve during the next session.

(3) Upon request, the Governor shall distribute copies free of charge, under such regulations as the Governor may establish, to public libraries, schools and state officials. The Governor shall make copies available to the general public at a reasonable charge for each copy.

SECTION 70. ORS 291.220 is amended to read:

291.220. The Governor, upon request, shall furnish the Legislative Assembly any further information required concerning the budget report **and the tax expenditure report.** The Oregon Department of Administrative Services, upon request, shall furnish a representative to assist the Legislative Assembly, its Joint Committee on Ways and Means, appointed under ORS 171.555, and the Legislative Revenue Officer in the consideration of the budget report, **the tax expenditure report** and any accompanying measures.

SECTION 71. ORS 291.222 is amended to read:

291.222. If the Governor under whose supervision the budget report **and tax expenditure report have** [*has*] been prepared will be succeeded in office in January next following:

(1) The Oregon Department of Administrative Services shall make available to the Governor-elect so much as the Governor-elect requests of the information upon which the tentative budget report **and tentative tax expenditure report are** [*is*] based, and upon completion of [*the tentative budget*] **each report** shall supply the Governor-elect with a copy [*thereof*] **of each report** but shall not cause the tentative budget report **or tentative tax expenditure report** to be printed and distributed. The department shall also make available to the Governor-elect all facilities of the department reasonably necessary to permit the Governor-elect to review and become familiar with the tentative budget report **or tentative tax expenditure report.**

(2) After a review of the tentative budget **report or tentative tax expenditure report** the Governor-elect may prepare revisions and additions thereto. The **Oregon Department of Administrative Services and the Department of Revenue** shall assist, upon request, in the preparation of such revisions or additions.

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Appendix A

(3) The **Oregon Department of Administrative Services** shall have **printed** as many copies of the revised budget report [*printed*] **and revised tax expenditure report** as the Governor-elect requests.

(4) (a) Not later than the convening of the next Legislative Assembly the **Oregon Department of Administrative Services** shall transmit a copy of a summary of the revised budget report containing the revenue and expenditure recommendations of the Governor-elect and **a summary of the revised tax expenditure report estimating the amount of revenue loss caused by each tax expenditure.**

(b) Not later than February 1, **the Oregon Department of Administrative Services** shall transmit a copy of the revised budget report **and revised tax expenditure report** to each member of the Legislative Assembly.

(5) Upon request, the department shall distribute copies of the revised budget report **and revised tax expenditure report** free of charge, under such regulations as it may establish, to public libraries, schools and state officials. It shall make copies of the revised budget report **and revised tax expenditure report** available to the general public at a reasonable charge for each copy.

SECTION 72. ORS 173.820 is amended to read:

173.820. Pursuant to policies and directions of the appointing authority, the Legislative Revenue Officer shall:

(1) Upon written request of a member of the Legislative Assembly or any committee thereof, prepare or assist in the preparation of studies and reports and provide information and research assistance on matters relating to taxation and to the revenue of this state and to any other relevant matters.

(2) (a) Ascertain facts concerning revenues and make estimates concerning state revenues ; **and** [.]

(b) **Ascertain facts and make recommendations to the Legislative Assembly concerning the Governor's tax expenditure report.**

(3) Prepare analyses of and recommendations on the fiscal impact of all revenue measures before the Legislative Assembly and of all other measures affecting the revenue of this state.

(4) Perform such duties as may be directed by joint or concurrent resolution of the Legislative Assembly.

(5) Adopt rules relating to the submission, processing and priorities of requests. Rules adopted under this subsection shall be in conformance with any applicable rule of the House of Representatives or the Senate. Requests made by joint or concurrent resolution of the Legislative Assembly shall be given priority over other requests received or initiated by the Legislative Revenue Officer. Rules adopted under this subsection shall be reviewed and approved by the appointing authority prior to their adoption.

(6) Seek the advice and assistance of political subdivisions of this state, governmental agencies and any interested persons, associations or organizations in the performance of the duties of the Legislative Revenue Officer.

(7) Enter into such contracts as considered necessary by the appointing authority to carry out the functions of the Legislative Revenue Officer.

(8) Perform such other duties as may be prescribed by law.

SECTION 73. ORS 176.110 is amended to read:

176.110. (1) The person elected to the office of Governor may take any action prior to the date the official term of office commences that is necessary to enable the Governor to exercise on such date the powers and duties of the office of Governor.

(2) The Governor-elect shall cause the budget report **and the tax expenditure report** for the biennium beginning July 1 of the year in which the Governor takes office to be compiled and prepared for printing as required in ORS 291.222.

(3) All necessary expenses of the Governor-elect incurred in carrying out the provisions of this section shall be audited by the Secretary of State and paid from any funds appropriated for this purpose in the same manner as other claims against the state are paid.

SECTION 74. **Sections 63 and 65 of this Act are added to and made a part of ORS 291.202 to 291.222.**

SECTION 75. **If Senate Bill 719 becomes law, sections 61 to 74 of this Act are repealed.**