State Tax Expenditure Reporting

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State Tax Expenditure Reporting

• Why does it **matter**?

• How is it being done?

• How **should** it be done?
How Bad Will It Get?
Total state budget shortfall in each fiscal year, in billions

State Budget Cuts

Health  Elderly & Disabled  K-12  Colleges & Universities  Employees

27  24  25  34  42

Budget Cuts already enacted in this downturn
Best Practices Checklist

☑ Accessibility
☑ Scope
☑ Detail
☑ Analysis
Tax Expenditure Reports
Nonexistent or Seriously Lacking

Scope

- Number of states meeting each criterion
  - Covers All Taxes: 33
  - Includes Cost of Excluding Services from Sales Tax Base: 18
  - Includes Cost of Federal Conformity: 16
95. Oklahoma Educational Television Authority
Citation: 70 O.S. §23-116
Description: Income earned by the Oklahoma Educational Television Authority
Estimate:
Data Source:
Reliability:

96. Oklahoma Student Loan Authority Bonds
Citation: 70 O.S. §695.3
Description: Bonds and the income from bonds issued by the Oklahoma Student Loan Authority.
Estimate:
Data Source:
Reliability:

97. Independent School District - Stadium, Sports Arena, & Recreation Facilities Construction Revenue Bonds
Citation: 70 O.S. §821.4
Description: Bonds issued pursuant to 70 O.S. §821 et seq.
Estimate:
Data Source:
Reliability:

98. Board of Regents of Specific Institutions of Higher Learning Authorized to Issue Tax Exempt Bonds
Citation: 70 O.S. §4802
Description: Bonds issued by various boards of regents of institutes of higher learning.
Estimate:
Data Source:
Reliability:

99. Oklahoma Tuition Trust
Citation: 78 O.S. §6614
Description: The property and income of the Oklahoma Tuition Trust is exempt from taxation. Purchasers of advance tuition payments administered by the Oklahoma Tuition Trust are allowed to deduct those payments from taxable income in the year the purchase was made.
Estimate:
Data Source:
Reliability:

Tax Preference Item $ Reliability

1 Exclusion for financial institution $0 5
2 Exclusion for public service corporation $0 5
3 Exclusion for insurance companies $0 5
4 Exclusion for nonprofit $0 5
5 Exclusion for fraternal benefit societies $0 5
6 Exclusion for special chartered corporations $0 5
7 Exclusion for common ownership corporations $0 2
8 Special provisions for security companies $0 5
9 Special provisions for investment companies $0 5
10 Exclusion for 1120S $0 5
11 Consolidation provisions $0 5
12 Interest on federal obligations $0 5
13 Net operating loss deductions $36,700,000 2
14 Treatment as a DISC $0 5
15 Treatment as a FSC $0 5
16 Rapid amortization of air / water facility $0 5
17 Accelerated amortization deduction for certain manufacturers $0 5
18 Exclusion - dividends of banks $0 5
19 Exclusion - dividends of corporations $0 5
20 Exclusion - interest from utilities $0 5
21 Apportionment of net income $0 5
22 Special apportionment of USTDA facilities $0 5
23 Allocation / apportionment of storage services $0 5
24 Exclusion for international investment services $0 5
25 Positive investment tax credit $0 5

TOTAL BUSINESS CORPORATION TAX = $36,700,000
19. **Human capital investment credit:** The credit is available for expenses related to: (1) job training; (2) work education; (3) donations or contributions to higher education institutions for the advancement of technology, including physical plant improvements; (4) day care facilities for children of employees; (5) childcare subsidies to employees; or (6) donations and contributions to the Individual Development Account Reserve Fund. The credit is 5% of qualified expenditures. Unused credits may be carried forward 5 years. CGS Sec. 12-217x

Rationale: Incentive and Expediency. PA 97-295 enacted the credit and phased it in at the rate of 3% for the 1998 income year, 4% for 1999, and 5% thereafter. PA 00-192 created the Individual Development Account Reserve Fund and made contributions to the Fund eligible for the human capital investment tax credit effective with the 2001 income year.

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**TABLE:**

<table>
<thead>
<tr>
<th>Corporation</th>
<th>Personal</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-07</td>
<td>$1,500,000</td>
<td>$400,000</td>
</tr>
<tr>
<td>2007-09</td>
<td>$1,500,000</td>
<td>$400,000</td>
</tr>
</tbody>
</table>

**EVALUATION:** This tax credit is effective because it assists low-income families with their child care expenses, which provides encouragement to stay in the workforce. [Evaluated by the Employment Department]

**1.160 DEPENDENT CARE ASSISTANCE**

Oregon Statute: 315.204
Sunset Date: 12-31-16
Year Enacted: 1987, Modified in 2005 (HB 2951)

**DESCRIPTION:** Employers providing dependent care assistance or dependent care information and referral services to their employees are allowed a credit to either personal or corporation income tax. The credit equals 50 percent of the total costs the employer paid for dependent care (but no more than $2,500 per employee) and 50 percent of the cost of providing information and referral services. The employer may also take the credit for the dependent care assistance paid by the employee on behalf of the employee’s child.
### FUELS AND UTILITIES

**COAL**

Description: The purchase or use of coal is exempt from taxation.

Purpose: This exemption provides special tax treatment of coal versus alternative energy forms. Other major energy sources are exempt only when used directly by the purchaser for residential use. Encouragement of coal consumption may have been perceived as providing or preserving employment when mining was a major employer within the commonwealth.

(Data Amounts in Millions)

<table>
<thead>
<tr>
<th></th>
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<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>$194.8</td>
<td>$203.8</td>
<td>$213.3</td>
<td>$223.2</td>
<td>$239.6</td>
<td>$244.5</td>
<td>$255.8</td>
</tr>
</tbody>
</table>

**Beneficiaries:** Approximately 120,500 households and 7,400 businesses benefit from this tax expenditure.

**FIREWOOD**

Description: The purchase or use of firewood cut into lengths for burning or wood pellets is exempt from taxation when used as fuel for cooking, or for heating water, or residential dwellings.

### SUMMARY LISTING OF TAX PREFERENCES

**Taxpayer Savings for 2007-09 Biennium**

<table>
<thead>
<tr>
<th>RCW</th>
<th>Brief Description</th>
<th>Taxpayer Savings ($000)</th>
<th>Category</th>
<th>Revenue Realized?</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>82.29A.130(15)</td>
<td>Professional football stadium</td>
<td>135 119 Bus. incentive Yes 61</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>82.29A.130(16)</td>
<td>Public facilities districts</td>
<td>123 108 Bus. incentive Yes 61</td>
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<td></td>
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<tr>
<td>82.29A.130(17)</td>
<td>Historic property</td>
<td>84  73 Government Yes 62</td>
<td></td>
<td></td>
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<tr>
<td>82.29A.130(18)</td>
<td>Clark County amphitheater</td>
<td>41  36 Bus. incentive Yes 62</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>82.29A.132</td>
<td>2nd Narrows bridge</td>
<td>0   0 Bus. incentive No 63</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>82.29A.134</td>
<td>Saleleasebacks, R. T. A.</td>
<td>0   0 Government No 63</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>82.29A.135</td>
<td>Gasohol production facilities</td>
<td>166 145 Bus. incentive Yes 64</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>82.29A.136</td>
<td>Developments, &gt; 3,000 lots</td>
<td>355-426 Tax base Yes 64</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>82.29A.137</td>
<td>Super-efficient airplane facilities</td>
<td>0   0 Bus. incentive No 65</td>
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<td></td>
<td></td>
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<tr>
<td>82.29A.138</td>
<td>Radio repeaters</td>
<td>5   5 Individuals Yes 65</td>
<td></td>
<td></td>
<td></td>
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</table>
### Detail

- **Number of states meeting each criterion**
  - Includes Description of How Each Item Works
  - Includes Projections
  - Includes Legal Citations
  - Includes Expenditures’ Year of Enactment
  - Includes Number and/or Description of Recipients
  - Reports Cost to Localities Separately

### Summary of Tax Expenditures by Program ($ millions)

<table>
<thead>
<tr>
<th>Program</th>
<th>FY 08</th>
<th>FY 09</th>
<th>FY 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>207,920</td>
<td>215,636</td>
<td>224,654</td>
</tr>
<tr>
<td>Agricultural Development</td>
<td>109,050</td>
<td>111,600</td>
<td>114,600</td>
</tr>
<tr>
<td>Equine Industry Support</td>
<td>33,569</td>
<td>32,961</td>
<td>33,984</td>
</tr>
<tr>
<td>Business</td>
<td>1,582,417</td>
<td>1,613,773</td>
<td>1,728,461</td>
</tr>
<tr>
<td>Banking Support</td>
<td>7,140</td>
<td>7,090</td>
<td>7,000</td>
</tr>
<tr>
<td>Economic Development</td>
<td>376,971</td>
<td>413,846</td>
<td>420,846</td>
</tr>
<tr>
<td>Energy Development and Coal Industry Support</td>
<td>147,636</td>
<td>153,636</td>
<td>161,636</td>
</tr>
<tr>
<td>Existing Business Support</td>
<td>822,651</td>
<td>859,692</td>
<td>885,622</td>
</tr>
<tr>
<td>Job Development</td>
<td>31,000</td>
<td>32,961</td>
<td>33,984</td>
</tr>
<tr>
<td>Natural Resources</td>
<td>10,580</td>
<td>10,810</td>
<td>11,010</td>
</tr>
<tr>
<td>Transportation Industry Support</td>
<td>111,490</td>
<td>117,159</td>
<td>120,636</td>
</tr>
<tr>
<td>Human Resources</td>
<td>3,177,849</td>
<td>3,252,729</td>
<td>3,484,512</td>
</tr>
<tr>
<td>Education Support</td>
<td>31,000</td>
<td>32,700</td>
<td>36,200</td>
</tr>
<tr>
<td>Family Support</td>
<td>372,300</td>
<td>363,600</td>
<td>395,700</td>
</tr>
<tr>
<td>Health Care Support</td>
<td>967,289</td>
<td>969,129</td>
<td>1,075,792</td>
</tr>
<tr>
<td>Housing Development</td>
<td>901,300</td>
<td>923,100</td>
<td>953,100</td>
</tr>
<tr>
<td>Income Maintenance</td>
<td>685,100</td>
<td>708,400</td>
<td>725,220</td>
</tr>
<tr>
<td>Retirement Support</td>
<td>616,900</td>
<td>636,000</td>
<td>667,200</td>
</tr>
<tr>
<td>Government</td>
<td>391,740</td>
<td>392,727</td>
<td>409,100</td>
</tr>
<tr>
<td>Federal Government Support</td>
<td>10,800</td>
<td>10,800</td>
<td>10,900</td>
</tr>
<tr>
<td>Intergovernmental Transfers</td>
<td>12,000</td>
<td>12,000</td>
<td>13,200</td>
</tr>
<tr>
<td>Military Support</td>
<td>32,220</td>
<td>33,390</td>
<td>34,050</td>
</tr>
<tr>
<td>State and Local Government Support</td>
<td>308,720</td>
<td>320,847</td>
<td>346,359</td>
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<tr>
<td>Social Services</td>
<td>696,144</td>
<td>690,144</td>
<td>672,596</td>
</tr>
<tr>
<td>Charitable Organization Support</td>
<td>555,061</td>
<td>564,641</td>
<td>615,114</td>
</tr>
<tr>
<td>Community Development</td>
<td>47,691</td>
<td>46,963</td>
<td>46,644</td>
</tr>
<tr>
<td>Environmental Conservation and Historic Preservation</td>
<td>39,232</td>
<td>39,532</td>
<td>39,632</td>
</tr>
</tbody>
</table>
4. **Assessment:**

   The intention of this provision is to encourage private sector participation in maintaining and preserving the State’s historic structures. However, since no public purpose is required for participation in this program, it is possible that the benefits enjoyed from this credit could accrue to relatively few, and most likely wealthy, individuals. Credits could be issued for renovations conducted on privately owned homes located in isolated areas. In instances like this, the individuals (all state taxpayers) ultimately subsidizing the historic renovation would be unable to even view that for which their tax dollars have paid.

   Recent experience, however, has proven that businesses account for the majority of those qualifying to take this credit.

   Additionally, it is unlikely that individuals with insufficient means to undertake renovations would be motivated by this tax incentive. As such, it is possible that this credit may act more as a preservation subsidy than as a preservation incentive.

   Because this preference is administered on a first-come, first-serve basis, it would also be possible for funds, which should have been allocated to the state’s most important historic resources to instead, be diverted to other, potentially less worthy, properties. Moreover, this method of allocation may cause equity concerns given that there is no restriction on the amount of tax credit than can be granted to any one taxpayer. Consequently, one taxpayer could receive the entire $5 million dollar credit allotment in any given year.

5. **Inadequacy:**

   As previously mentioned, aside from the resident curator provision there is nothing preventing one large taxpayer from receiving the remainder of the credits available in any given fiscal year. Such allocation of the credit may actually hinder preservation efforts by causing individuals who would have otherwise begun historic rehabilitation to postpone projects until the credit is once again available. Additionally, equity concerns are a likely consequence of credit monopolization.
Analysis

- Number of states meeting each criterion
  - Includes Program Categories for Each Expenditure: 9
  - Lists Purpose or Rationale for Each Expenditure: 12
  - Includes Evaluations or Recommendations for Each Expenditure: 3
  - Shows Distribution of Benefit by Income Level: 8

Read the whole thing!

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