

# **Oregon Tax Breaks:** **Hidden Spending & Misplaced Priorities**



## **TRAINER MANUAL**

JUNE 2003

## WORKSHOP PREPARATION AND SET-UP

### **MATERIALS:**

- Packets and loose handouts
- Sign-in sheet and nametags
- Easel, chart pack, magic markers, tape
- Visuals blown up to poster-size (agenda, lessons, game show sheet)
- Question board [blank foam board] and post-its
- Optional: Props for facilitator (tax collector for State of Oz; Game show host)
- Optional: Party horn
- Category cards for priority card exercise
- "Medically Needy Program" and "Medical Tax Deduction for Elderly" signs
- Large name tags for skit (Barry Bigcredit, Dina Deduction, Alice Advocate)
- Blank cards or sheets of white paper and pens for game show
- Copy of tax expenditure report
- Long table or four clipboards for game show
- Optional: Sticky wall, spray, push pins, masking tape
- Stack of fake \$1 bills (for giving tax breaks in Oz exercise)

### **PACKETS:**

- Workshop agenda
- Stack of play money with Oz income tax cover sheet
- List of tax expenditures costing over \$20 million in 01-03
- Tax priority cards (yellow) and what do we tax cards (green) - *not every packet will have one*
- Additional resources sheet

### **LOOSE HANDOUTS:**

- 4 copies of script for skit
- Game show answer sheet
- Priority cards handout
- Current debate handout (article and list)
- Lesson 3 chart handout (spending priority)
- Lesson 4 chart handout (tax burden)

### **ROOM SET-UP:**

- **Chairs:** Chairs should be arranged in a semi-circle facing the easel
- **Sign-in table:** A table should include the sign-in sheet, name tags, pens, participant packets
- **Refreshments:** Put refreshments off to the side or back of the room.
- **Sticky wall (optional):** Put sticky wall on a flat wall using push pins or tape
- **Agenda:** The workshop agenda should be posted on the wall
- **Lessons:** The large visual with the four workshop lessons should be posted on the wall
- **Easel:** Place the easel in the front of the room near the sticky wall or a blank wall space
- **Space:** There should be enough space in the front of the room for the skit and game show participants

# Oregon Tax Breaks:

## Hidden Spending & Misplaced Priorities

### AGENDA

Welcome and introductions	5 minutes
Workshop overview	5 minutes
Lesson 1: Some tax expenditures are good public policy, some are not Exercise: What we tax Exercise: Priority cards	20 minutes
Lesson 2: Tax breaks are a form of hidden spending Game: Taxes in the State of Oz	10 minutes
Skit: How do tax breaks come about?	10 minutes
Lesson 3: Oregon is not monitoring its tax breaks well Exercise: The budget approval process	20 minutes
Lesson 4: Tax breaks should be used to help offset existing inequalities in Oregon's tax system Game: Tax break game show	15 minutes
What should we do?	5 minutes

## **WELCOME AND INTRODUCTIONS**

TIME: 5 MINUTES

### **Materials and set-up:**

- Workshop packets
- Sign-in and name tags

### **What trainer does:**

- Welcome the participants.
- Introduce yourself
- Ask participants to go around the room and briefly introduce themselves
- Tell participants the workshop is 90 minutes long, briefly review agenda
- Point out bathrooms, refreshments, etc.
- Make sure everyone has a packet

## WORKSHOP OVERVIEW

TIME: 5 MINUTES

### Materials and set-up:

- Easel-sized list of the four workshop lessons (post on wall)
- Copy of tax expenditure report

### What trainer says:

- **Current revenue crisis:** The current revenue crisis has made tax breaks a hot topic, and rightly so. Oregon has generated \$3.3 billion less than legislators expected two years ago, resulting in cuts to a wide range of state services. Our kids are not getting the education we had collectively hoped to provide. People who are sick are not getting all the medications they need. Serious crimes are going unpunished. The state has received national media attention for its failings.
- **Tax breaks contribute to the crisis:** At the same time, Oregon is giving away millions of dollars in tax breaks, and the public rarely has a chance to debate whether these tax breaks make sense.
- **Tax breaks benefit the rich:** Also, partly because certain tax breaks disproportionately benefit wealthy Oregonians, the poor and middle classes are paying higher percentages of their income to taxes than are the rich.
- **Tax breaks benefit corporations:** And, partly thanks to tax breaks, nearly two-thirds of Oregon corporations paid only \$10 in corporate income taxes in 2000, before the recession.
- **Tax breaks are a source of revenue:** Despite all this, it's the immediate revenue crisis that has generated so much public attention on tax breaks. The state needs money to pay for basic public services, and tax breaks offer one source of revenue.
- **It's good to focus on tax breaks:** It is right to turn to tax breaks for some of the money that is needed to solve the immediate revenue crisis. Over the years, tax breaks have been established that are costing taxpayers dearly but are not providing substantial public benefit. It is good that public attention is directed at eliminating these breaks.
- **One-time attack isn't enough:** But a one-time attack on Oregon's tax break spending will not be enough to build and maintain a healthy system in the long-term. At this moment of crisis, the public needs to demand more long-term accountability in Oregon's tax break spending. Otherwise we will just find ourselves in the same position in the next recession.
- **Needed reforms:** More tax breaks should be regularly reviewed. More information for evaluating the effectiveness of tax breaks should be made available. If the state tax system comes to favor the rich over the middle and lower classes, as it does today, tax breaks should be used (along with other measures) to spread the burden more fairly.

- **Workshop gives tools for long-term:** This workshop was designed by the Oregon Center for Public Policy with these long-term concerns in mind. While it will be useful to those of you working to influence the immediate public policy debate, it aims to provide Oregonians with the basic analytical tools you need to build a tax break system that is accountable and fair in the long-term.
- **Tax expenditure report:** As the workshop proceeds, we will be making references to this book [hold up the Tax Expenditure Report]. This report is released once every two years, at the same time the Governor releases his budget proposal. It contains information about every tax break Oregon provides. Right now, Oregon is offering 350 different tax breaks, and this book provides details on each one, including estimates of how much each one costs.
- **Clarify term "tax expenditure":** "Tax expenditure" is the official term for all credits, deductions, exemptions, and subtractions. But we usually just use the term "tax break."
- **History of tax expenditure report:** Before Oregon had this book, the public and our legislators knew very little about how much Oregon was spending on tax breaks, or even what all the tax breaks were. The first book was issued in 1997.
- **OCPP's commitment:** The OCPP's Executive Director, Chuck Sheketoff, and others pushed hard for Oregon to start issuing a tax expenditure report. This workshop continues the OCPP's commitment to increasing public attention on Oregon's tax break spending.
- **Four lessons:** The workshop teaches four major lessons about tax expenditures. [Read lessons from list posted on wall].
- **Question board:** [Point out the question board.] Taxes can be a complex topic. As we go through the workshop, you may have questions about the details of specific tax breaks, or you may just want more information about some of the topics we cover. Because we're on a tight timeline, we won't have a chance to respond to most of those questions. But the folks at the Oregon Center for Public Policy are more than happy to try to answer any of your questions after the workshop. If you have questions, please jot them down on a post-it note (contained in your packet) and post them on this board. Include your name and email address or phone number. Someone from OCPP will get back to you.

# LESSON ONE: SOME TAX EXPENDITURES ARE GOOD PUBLIC POLICY, SOME ARE NOT

TIME: 20 MINUTES

## Materials and set-up:

- What do we tax cards (printed on green paper, in packets)
- Priority cards (printed on yellow paper, in packets)
- Categories for priority cards ("Difficult or unwise to collect"; "Good public policy", etc.)

## EXERCISE 1: WHAT DO WE TAX:

- "The Tax Expenditure report lists tax expenditures that total \$27 billion in the 2003-05 biennium. That's a LOT of money! In fact it's well more than twice the size of the whole General Fund budget, meaning it's more than the state spends on schools, safety net and corrections programs combined!"
- "But the \$27 billion number is NOT what it first appears. It DOES NOT mean that there are \$27 billion in loopholes! Let's do an exercise to clarify what the \$27 billion means."

## Exercise:

- **What are Oregon's two main taxes?** "What are the two main taxes in Oregon's state and local tax system?" **Answer:** the property tax and the income tax. Briefly explain that income taxes pay for state services like prisons, schools, and the Oregon Health Plan, while property taxes pay for local services like parks, libraries, and local police protection.
- **Participants pull out green cards:** Ask participants to pull out the green cards from their packets [hold up an example]. Each card lists a different item that might be taxable. (Only some participants will have cards in their packets.)
- **Explain the cards:** "Since Oregon taxes both income and property, that means that ALL property and ALL income are theoretically taxable. Each of you has on your card a particular type of property or income that might be taxed."
- **People read their cards:** Ask each person with a card to stand and read the type of income or property on the card. Ask the participants if Oregon taxes that type of income or property. After the audience responds, let them know if they're correct (see answers below).
- **Send people to different sides of the room:** Ask people holding cards for things we don't tax to go to one side of the room; people with cards for things we do tax go to the other.

## ANSWERS: WHAT WE TAX

### PROPERTY:

YACHTS AND PLEASURE BOATS: NO

SINGLE-FAMILY HOMES: YES

PROPERTY OWNED BY THE STATE AND FEDERAL GOVERNMENT: NO

### INCOME:

UNEMPLOYMENT INSURANCE INCOME: YES

INCOME FROM WAGES: YES

SOCIAL SECURITY INCOME: NO

- **"Not taxed" = what's in the report:** Pointing to the "not taxed" group, explain, "These types of income and property are not taxed. Because they could theoretically be taxed, but Oregon chooses not to tax them, they are listed in the tax expenditure report. The state figures out how much it would collect if it did fully tax these different forms of income and property, and it lists those dollar figures in the report."
- **What's in the tax expenditure report:** "The tax expenditure report lists all the types of property and income that are not taxed, including lots of things we don't tax for very good reasons, like federal property. Federal law does not allow the state to tax federal property! It also lists all the deductions, credits, and subtractions that Oregon taxpayers can take, and estimates the revenue impact of all of them. "
- **What's the \$27 billion:** The \$27 billion is the difference between what we are collecting in taxes, and what we could theoretically collect if we taxed all property and all income, and offered no deductions, credits, or subtractions.
- **Some of the \$27 billion makes sense, some doesn't:** We would never want to tax all property and income, and some deductions and credits seem like good ideas, as we will learn in the next exercise. Some of the \$27 billion makes sense. In fact, most of the \$27 billion makes sense! Still, a substantial amount of money is being spent on tax breaks that deliver little or no public benefit, and that's the spending we should get rid of.

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## **EXERCISE 2: PRIORITY CARDS:**

### **Introduction**

- "Let's do an exercise to help us get a better sense of which tax breaks make sense and which do not."
- **Put up categories:** Put the category cards in a row on the wall ("Difficult or unwise to collect", "Good public policy", "Needs to be reformed", "Not good public policy"). Briefly explain each of the categories listed on the cards:
- **(1) Difficult or unwise to collect:** Some tax expenditures make sense, because they would be difficult or unwise to collect: (a) Some forms of income or property are very hard to tax. (b) Some forms of income or property we wouldn't want to tax, like federal land.
- **(2) Good public policy:** Some tax expenditures are good public policy tools because they achieve important public policy goals: (a) For example, tax expenditures can be used to help taxpayers pay for college tuition, or retirement, or provide targeted economic relief to taxpayers who need it. (b) Tax expenditures can also sometimes be more efficient than government programs that are designed to achieve the same goals.
- **(3) Need to be reformed:** Some tax breaks may have some good underlying public policy purposes, but they need to be reformed. For example, some tax breaks are out-of-date. Others are so broadly defined that they end up providing costly benefits to people who don't really need them.

- **(4) Not good public policy:** And some tax breaks don't make good policy sense: (a) Some don't make enough of a contribution to broader public policy goals to justify their cost. (b) Others are just giveaways with very little, if any, public benefits.

**Exercise:**

- **Participants pull out the priority cards:** Ask participants to pull out the yellow cards from their packets [hold up an example]. Not everyone will have a card.
- **Instructions:** Each card lists a different tax break. Ask participants to look at the tax break listed on their card and then come up and place their card on the wall under the category they think best describes their tax break.
- **Do the exercise:** Give participants a few minutes to place their cards
- **Ask questions to debrief their choices:** Ask a few participants why they put the cards where they did. Do this by choosing a particular tax break and asking the person who put up that card to explain what the tax break is and why they chose the category they did.

**LIKELY CATEGORY CHOICES**

Difficult or unwise to collect:	Personal Property & Intangible Property
Good public policy:	Pension Contributions & Working Family Child Care Credit
Needs to be reformed:	Home Mortgage & Medical Deduction for the Elderly
Not good public policy:	Pleasure Boats & Pollution Control [could also be in "needs to be reformed"]

- **Respond to "incorrect" choices:** If someone chose an inappropriate category for their tax break, ask others in the room if they agree. Give audience members a chance to "re-categorize" the card.
- **Ask participants what they learned:** Some of the key lessons that should be raised are:
  - Some tax expenditures are good public policy, others are not.
  - Still others are only partly good and need to be reformed. For example, some tax expenditures achieve important public policy goals, but they provide a big chunk of their benefits to people who don't really need government help.
  - Different people have different priorities. It's not always clear what is a tax loophole and what is good policy. It's kind of like a yard sale: One person's junk is another person's treasure.
- **Hand out the "priority card" handout**

## LESSON TWO: TAX BREAKS ARE A FORM OF HIDDEN SPENDING

TIME: 10 MINUTES

### Materials and set-up:

- Easel and butcher paper
- Play money (in participants' packets; plus extra \$1 bills for facilitator)
- Prop for facilitator (optional)
- Party horn (optional)

### GAME: Taxes in the State of Oz:

- **Introduce yourself:** Introduce yourself as the head of the Department of Revenue for the State of Oz; workshop participants represent the taxpayers of the State of Oz
- **Participants pull out their Oz money:** Ask participants to take out the stack of play money from their packets -- the money represents their annual income. Everyone also has a card indicating both their annual income and their tax.
- **Collect the tax:** Tell them it's time to pay the State of Oz income tax. Everyone has to pay 1/10 of their income in tax. Point out that the amount they owe is indicated on their card. Ask them to remove the amount they owe in tax and hand it over to you
- **Count the tax:** Count how much you have collected and write total amount on easel – "This is our total state income tax revenue for the year."
- **Some revenue will go for services:** "The state will use this money for education, human services, public safety – the legislature will debate how to spend the money and develop line item budget allocations."
- **Special gifts:** Winking and flipping through the Tax Expenditure Report, say, "But first, I have some special gifts for some of you! Let me see . . . what does the Tax Expenditure Report tell me I can give to some of you? Ah yes! Here's a couple!"
- **Glasses tax exemption:** Ask anyone who is wearing glasses to raise their hand → Explain that the Government of Oz wants to promote clear thinking and clear seeing among its people, because that's what makes Oz a world-class state, so Oz has a special tax exemption for people who wear glasses. Give back \$1 to everyone whose hand is raised.
- **Venture capital credit:** Say, "This year, we the Oz Legislature decided that not enough money was being invested in yellow brick roads, and that new tax incentives were needed. As a result, I am proud to announce a new TAX CUT!" [blow horn]. This tax cut is for anyone with an income over \$150 who is willing to promise that they will invest in yellow brick roads. It is worth \$2.
- **Check eligibility:** Ask everyone with incomes over \$150 who will promise to invest in yellow brick roads to raise their hands. Ask each of them if they will invest in yellow brick roads, and – after they say yes - hand them back \$2 each.

- **Count giveaways:** Count how much money the Department of Revenue gave away and write on board, subtracting this amount from the total collected in taxes earlier.
- **How was what I just did different than spending through the regular budget process?** → Give people a chance to call out a few ideas. Then wrap-up with the ideas below:
- **Tax breaks versus the regular budget:** As taxpayers of the State of Oz, we just spent \$X on tax incentives and exemptions. The rest of the money we will send to the legislature to spend on public services. The legislature will create budget proposals for how to spend that money, and there will be months of public hearings, political negotiations, and compromises. Spending on tax breaks will probably receive much less scrutiny. That's because spending on tax breaks occurs outside the regular budget process.
- **Hidden spending:** Once a particular tax break is added to Oregon's tax code, the state spends money on that program automatically from year to year, without any further public hearings or debate (except for some tax breaks that have to be renewed by the legislature every few years).
- **Segue to skit:** "But how does the tax break get into the tax code in the first place? And why do we allow tax breaks that aren't good public policy to stay on the books year after year? In the next exercise, we'll explore these questions through a skit."

## **SKIT: HOW DO TAX BREAKS COME ABOUT?**

TIME: 10 MINUTES

### **Materials and set-up:**

- Four photocopies of the script
- Name signs with the following information:
  - (1) Picture of factory: "Barry Bigcredit, Associated Oregon Industries"
  - (2) Picture of house: "Dina Deduction, Oregon Association of Realtors"
  - (3) Picture of family: "Alice Advocate, Oregon Center for Public Policy"

### **INTRODUCTION:**

- "This section focuses on how tax expenditures come about, and why they stay on the books."
- Ask for three volunteers to come to the front of the room and give each one a name board to put over their necks. Ask specifically for people who are willing to ham it up a little.
- "To help us understand how tax expenditures come about and why they stay on the books, we've invited representatives from three interest groups in Oregon who have promoted or defended certain tax breaks to come share their stories. I'd like you to welcome:  
Barry Bigcredit from Associated Oregon Industries,  
Dina Deduction from the Oregon Association of Realtors, and  
Alice Advocate from the Oregon Center for Public Policy."

### **SKIT:**

- Start the skit (see script in appendix).
- Set a lively tone and encourage people to ham it up.

### **DEBRIEF:**

Ask the audience what the lessons were. Some of the lessons that should come up are:

- Tax breaks can be an effective and appropriate public policy tool – and some of Oregon's 350 tax breaks reflect a responsible use of this policy mechanism.
- But sometimes, tax breaks that start out as good ideas turn bad over the years as the original impetus for the break becomes less compelling. These tax breaks often stay in place because they're not monitored carefully and because lobbyists for interested parties fight to keep them.
- Lobbyists and advocates often push for tax breaks because it's easier to get the legislature to spend money through the tax system than through the regular budgeting process. Also, once tax breaks are in place, they are harder to eliminate than budget items.

## LESSON 3: OREGON IS NOT MONITORING ITS TAX BREAKS WELL

TIME: 20 MINUTES

### Materials and set-up

- "Medically Needy Program" sign; and "Medical Tax Deduction for Elderly" sign
- Chart handout: spending priorities
- Party horn

### INTRODUCTION

- "In the last lesson we learned that spending money through the tax system is the same thing as spending money through the regular budget process. In terms of revenue impact, the result is the same."
- "But, as the skit indicated, there are some important differences between government spending through tax breaks and government spending through state agency budgets."
- "One important difference is that, unlike 'direct' spending, tax expenditures are 'hidden spending.' Once in place, they usually aren't subject to regular public scrutiny and debate. They just sit there on the books. Oregon spends the money and no one usually pays any attention."
- "This is very different from all the attention that's lavished on state agency budgets by each legislature. Every two years when the legislature meets they go through a process of reviewing state agency budgets, often proposing reductions or changes of one kind or another."
- "By contrast, most tax breaks are never reviewed once they are on the books. Let's do an exercise to understand this more clearly."

### EXERCISE

- **Ask for volunteer:** Ask for a volunteer to come to the front of the room. Give the volunteer a name board that reads "Medically Needy program."
- **Explain "Medically Needy Program":** "The Medically Needy program provides prescription drugs and mental health services to low-income seniors and disabled Oregonians. The program was the subject of intense scrutiny during recent budget cuts."
- **Explain agency review process:** Announce that you are the director of the Department of Human Services, and that the Medically Needy program is part of your agency's budget. Because the legislature is about to meet again, like it does every two years, it is your job to inspect every program that is in your agency's budget and decide whether to include it in the budget you will recommend for funding.
- **Conduct agency review:** Make a show of inspecting the Medically Needy program volunteer – "Stand up straight! Stick your chest out! Have your shoes been shined?"

- **Announce results:** Announce that you think the program looks good enough to be recommended for funding. Tell the volunteer to stay put. It's now time for the legislature to review the program.
- **Explain legislative review process:** Explain that the program has now moved on to the legislature for review. During the public hearing and negotiating process, the program will be subject to a barrage of questions about its worth from legislators, lobbyists, and the public.
- **Assign sections of the room to be lobbyists and legislators:** Assign one side of the room to be lobbyists, and the other side to be legislators.
- **Audience calls out questions:** Starting with the legislators, ask participants to call out the kinds of questions legislators might ask in the process of reviewing the Medically Needy Program. Take a few questions (this should be a rapid fire barrage of questions – no need to respond.) Then move on to the lobbyists' questions.
- **Announce program has been eliminated:** Stop the audience's questions, and say "Gee, this is a brutal process. After all your criticisms and scrutiny, it looks like the Medically Needy Program isn't going to be funded this year. But we'll be back." Thank volunteer and ask them to sit down.
- **Explain what really happened to Medically Needy Program:** "The Medically Needy program was essentially eliminated on February 1, 2003. Neither the Governor nor legislative leaders are planning to fund the program in the next two-year budget cycle."
- **Tax break review process:** "Now we'll look at the process for reviewing tax breaks."
- **Ask for another volunteer:** Invite another volunteer to come up. Hand them a name board that reads "Medical Tax Deduction for the Elderly."
- **Explain the Medical Tax Deduction for the Elderly:** "This deduction allows elderly residents at all income levels to deduct the costs for medical and dental expenses, including spending for things like contact lenses, weight loss programs, and acupuncture."<sup>1</sup>
- **Conduct tax break review process:** "Now we're going to simulate the typical review process for tax breaks." → Open the tax expenditure book, act like you're checking to find a particular tax break in the book, point to the page like you've found it, then blow the horn and announce, "Congratulations, you've been funded! We have no questions for you. You may take your seat."
- **Hand out chart on spending priorities:** Hand out the chart on spending priorities, which compares the medically needy program and the medical deduction for the elderly. Briefly explain how the medically needy program has been the subject of much public scrutiny. In contrast, few people even know how much taxpayers spend helping wealthy Oregonians pay their medical bills, and there's very little debate about whether it is good public policy.

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<sup>1</sup> There are two tax deductions for medical and dental care that are available to taxpayers regardless of how high their income is. The first tax deduction allows all taxpayers to deduct medical and dental expenses that exceed 7.5 percent of their income. The second allows elderly taxpayers (those over age 62) to deduct all medical and dental expenses up to 7.5 percent of their income. By combining these two deductions, elderly taxpayers can deduct ALL of their medical and dental expenses. For more information about the Medically Needy program and the two tax breaks, see OCPP's issue brief entitled, "Robin Hood's Medical Plan," May 2003, available at [www.ocpp.org](http://www.ocpp.org).

## **WHAT CAN WE DO TO IMPROVE PUBLIC MONITORING?**

- **Write topics on easel:** Write (1) Sunsets; (2) Disclosure; and (3) Clawbacks on the easel.
- **Begin discussion:** "Let's talk about what we can do to improve public monitoring of tax breaks. I've listed three tools that can be used to create more public accountability for tax break spending."

### **(1) SUNSETS:**

- **What are sunsets?** "First, let's talk about sunsets. Can anyone tell me what it would mean if a certain tax break were scheduled to sunset on a particular date?" → Let one or two people answer. **Answer:** a sunset date means that the tax break will be eliminated on that date unless the legislature acts to renew it. Having a sunset date creates the opportunity for a regular public review.
- **Only 15% of tax breaks sunset:** "Only 15 percent of the tax breaks on the books are scheduled for a sunset. That means that 85 percent of tax breaks are never reviewed again once they're on the books."
- **Not all need regular review:** "Not all tax breaks need to be reviewed regularly. For example, it would be a waste of the legislature's time to schedule a regular review of the tax exemption for federal property. The State is never going to tax federal property, so there's no need to keep reviewing it."
- **But many should be reviewed:** "But many more tax breaks should be regularly reviewed to make sure they're still achieving their intended goals, and to assess whether they're a good way to be spending the state's limited resources. The way to make sure this happens is to write in a sunset date every time a tax break that ought to be regularly reviewed is approved. That guarantees that it will have to be reviewed again in several years in order to remain on the books."

### **(2) DISCLOSURE:**

- **What's disclosure?** Another tool is called "disclosure": Ask participants if anyone can explain what DISCLOSURE means, then lead a brief discussion about what disclosure is.

The main points about disclosure are:

- **Lack of accountability for subsidies:** Many of our tax breaks are economic development tax incentives. They were designed to create incentives for companies to create jobs. But in most cases, the companies that receive these breaks aren't required to report much about the jobs they created for the money they received in tax breaks.
- **Oregon should monitor use of subsidies:** Oregon should do a better job of measuring whether these economic development subsidies are working at all, and if they are cost-effective. Companies receiving tax breaks should have to disclose what sorts of jobs they created (what do the jobs pay, do they provide health insurance, were the jobs full or part-time), and how much the company received in tax breaks, with details on dates and programs clearly spelled out.
- **Enterprise Zones:** A 1998 Secretary of State audit of Enterprise Zones in Oregon found that 30 of the 62 companies audited created 10 or fewer jobs. The total exemption for these 30 was \$12 million.

- **Corporate income tax disclosure:** Disclosure can also mean requiring companies to disclose how much they pay in corporate income tax. This sort of disclosure would also be in the public interest, because it would draw public attention to those companies who are not paying their fair share in taxes even though they benefit from the schools, roads, fire and police protection, and other services that taxes pay for. With two-thirds of Oregon corporations paying just \$10 in income taxes, this sort of disclosure may be needed in Oregon.

### **(3) CLAWBACKS:**

- **What are clawbacks?** "So when we find out that companies aren't actually creating the jobs and other public benefits they promised to create, what should we do?" → Someone in the audience will probably say "get our money back." → You can explain that this is called "CLAWBACKS."

The main points about CLAWBACKS are:

- **We should be able to get our money back:** If a company receives economic development subsidies in exchange for delivering jobs of a certain quality, taxpayers have a right to their money back if the company fails to live up to its commitments.
- **No accountability without clawbacks:** Without clawbacks, if a company accepts subsidies and then lays off workers or closes its plant, the company gets to keep the subsidies it received anyway. There is no accountability.
- **Clawbacks aren't used enough:** State and local governments do not include enough clawback provisions when they hand out economic development subsidies.

## LESSON 4: TAX BREAKS SHOULD BE USED TO HELP OFFSET EXISTING INEQUALITIES IN OREGON'S TAX SYSTEM

TIME: 15 MINUTES

### Materials and set-up:

- Long table at front of room with four chairs facing audience (or just chairs with clipboards)
- Place five large blank cards and one magic marker at each of the four places
- Game show question/answer visual on wall
- Game show answer sheet handout
- Chart handout: Tax burdens (one chart on each side)

### GAME: "The Price Is Right, but Unfair" Game Show

- **Introduce the game:** You're the show host; the game show is entitled, "The Price Is Right, but Unfair."
- **Come on down!** Invite three volunteers to the front of the room to be game show contestants
- **Rules:**
  - Contestants have to guess the answers to a series of questions about tax breaks
  - As the host, you will read the questions
  - They must quickly come up with their guess and write it on their card
  - Then all the contestants have to show their cards to the audience
  - Audience members clap for the one they think is closest to the right answer
  - Contestants get a point for each time their answer is the closest one to the right answer
- **Post the visual:** Post the visual for the game show to help contestants follow the questions
- **Background information:** Explain that many of the questions compare how much wealthy Oregonians benefit from certain tax breaks, compared with how much middle income Oregonians benefit. The wealthy Oregon taxpayers we focus on have adjusted gross incomes over \$100,000. Having an income that high would put you among the richest 7.5 percent of Oregon taxpayers. The middle income taxpayers we focus on have adjusted gross incomes under \$40,000. About 63 percent of Oregon taxpayers fall into this category.
- **Start the game** (see next page): Assure people you'll hand out an answer sheet at the end.
- **After each question give the right answer:** After participants have clapped for each of the contestant's answers, reveal the correct answer. Write the answer on the visual chart.
- **Keep score on the easel:** The contestant with the answer closest to the correct one gets a point. Add up the points at the end.

**“THE PRICE IS RIGHT, BUT UNFAIR”**  
**GAME SHOW QUESTIONS**

1. In order to take advantage of most tax deductions, taxpayers must first qualify for enough deductions to make them eligible to file an "itemized" tax return. About 95 percent of taxpayers with incomes over \$100,000 itemize. What percentage of taxpayers with incomes under \$40,000 itemize?

ANSWER: 26 percent.

2. About 82 percent of Oregon households with incomes over \$100,000 benefit from the Home Mortgage Interest Deduction. What percentage of households with incomes under \$40,000 benefit from the Home Mortgage Interest Deduction?

ANSWER: 15 percent.

3. Oregon allows seniors – regardless of their income – to deduct their medical and dental expenses. High-income seniors -- those with incomes over \$100,000 – were able to deduct an average of \$5,600 in 2000 thanks to this break. In contrast, how much on average were seniors with incomes under \$40,000 able to deduct?

ANSWER: \$1,440.

4. About 94 percent of Oregon households with incomes over \$200,000 benefit from the deduction for real estate taxes paid. What percentage of households with incomes under \$50,000 benefit from this deduction?

ANSWER: 21 percent.

- **Hand out the answer sheet**

**OREGON'S TAX BURDEN IS UNFAIR:**

- **Oregon's tax system is unfair:** "As the game show demonstrates, many of Oregon's tax breaks disproportionately benefit upper income households. Oregon's overall tax system is increasingly unfair, with lower income Oregonians bearing a greater burden than the rich."
- **Hand out charts:** Hand out the sheet with two charts on Oregon's tax burden.
- **Explain charts:** Explain what the two charts say. The first shows that low-income Oregonians pay a higher proportion of their income to state and local taxes. The second shows that over the 1990s, taxes went up for the poor, stayed about the same for middle-income families, and went down for the rich.
- **Tax breaks feed the problem:** "Some tax breaks now on the books feed the problem, rather than correcting it. Oregon could use tax breaks to maintain a fair system, but right now that is not happening."

- **MEANS TEST:** "How could tax breaks in Oregon be changed to make the system more fair? One important step would be to MEANS TEST certain tax breaks." Write the words MEANS TEST on the easel paper.
- **Explain what MEANS TEST means:** "Means testing means that you set income limits on who is eligible to receive certain tax breaks. For example, Oregon could say that if your income is over \$100,000, you cannot take the deduction for medical expenses. Only taxpayers with incomes under \$100,000 could get the break."
- **REFUNDABLE:** "Another important step would be to make more tax breaks REFUNDABLE." Write the word REFUNDABLE on the easel paper.
- **Explain what it means to make a tax break REFUNDABLE:** "If a family only earns enough money to pay \$500 in taxes, and the state makes available a \$2,000 tax credit for child care expenses, the family will only be able to actually receive \$500 of that tax credit. But if the tax credit is made refundable, then the family will get the \$500 tax credit plus a check from the government for the remaining \$1,500. In other words, refundability enables all families to receive the full value of the tax credit."<sup>2</sup>
- **EIC and PEC should be refundable:** Certain tax credits in Oregon are not refundable. The OCPP believes that the Earned Income Credit and the Personal Exemption Credit should both be made refundable.
- **[The following material is particularly time-sensitive. Trainers should take care to update this information from OCPP before including it in the workshop]. OPPOSE NEW TAX BREAKS THAT PRIMARILY BENEFIT THE RICH:** The Legislature is currently considering a number of new tax breaks that would make Oregon's tax system even more unfair. Specifically, proposals to eliminate or cut capital gains taxes and the estate tax would disproportionately benefit the wealthiest individuals in Oregon, further lowering their tax burden compared to middle and lower income families. Another proposal would eliminate income taxes for certain venture capitalists. These proposals would make Oregon's tax system less fair, not more fair, and should be opposed.

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<sup>2</sup> If someone argues that the family does not have a right to the full credit, because they did not pay enough in taxes, answer by first pointing out that poor people may not pay a lot of income taxes but they do pay other taxes like property taxes (through their rent), gas taxes, and cigarette taxes. Second, remind people that the overall tax system is unfair, with the poor paying a higher percentage of their income to taxes than anyone else. Making the tax system more fair means directing more tax relief to the poor.

## WHAT SHOULD WE DO?

TIME: 5 MINUTES

### Materials and set-up:

- Overview (summary) sheet
- Handout on the current debate over tax breaks (article and list)

- **Overview sheet:** Hand out the workshop overview sheet: This sheet provides a summary of the main lessons as well as some suggestions for potential solutions.
- **The current debate:** Hand out the packet with information on the current debate over tax breaks. "This issue is under discussion right now in the legislature. This handout provides some examples of the different proposals under discussion." Go over the handout briefly.
- **Action steps:** *Host organizations should add any additional action steps or discussion items here that are appropriate. If you are trying to engage your participants in longer term work on tax reform, now's the time to talk about it.*

# APPENDIX

# Oregon Tax Breaks:

## Hidden Spending & Misplaced Priorities

### AGENDA

Welcome and introductions	5 minutes
Workshop overview	5 minutes
Lesson 1: Some tax expenditures are good public policy, some are not Exercise: What we tax Exercise: Priority cards	20 minutes
Lesson 2: Tax breaks are a form of hidden spending Game: Taxes in the State of Oz	10 minutes
Skit: How do tax breaks come about?	10 minutes
Lesson 3: Oregon is not monitoring its tax breaks well Exercise: The budget approval process	20 minutes
Lesson 4: Tax breaks should be used to help offset existing inequalities in Oregon's tax system Game: Tax break game show	15 minutes
What should we do?	5 minutes

# LESSONS

- 1. Some tax expenditures are good public policy, some are not**
- 2. Tax breaks are a form of hidden spending**
- 3. Oregon is not monitoring its tax breaks well**
- 4. Tax breaks should be used to help offset existing inequalities in Oregon's tax system**

# PRIORITY CARDS HANDOUT

## **WORKING FAMILY CHILD CARE CREDIT:**

**Explanation:** Allows low-income working parents to take a tax credit worth up to 40 % of annual child care expenses.

**Estimated cost (2003-05):** \$31 million

**Rationale:** According to the Tax Expenditure Report, “To provide tax relief to low-income working taxpayers who must incur dependent care expenses to stay in the workforce.”

## **EMPLOYER CONTRIBUTIONS TO WORKER'S PENSION PLAN:**

**Explanation:** Employees don't have to pay taxes on the money that their employers contribute to their pension plans, until the employee actually accesses the funds. Certain amounts contributed by employees are excluded from immediate taxation as well.

**Estimated cost (2003-05):** \$634 million

**Rationale:** According to the Tax Expenditure Report, “To promote saving for retirement and to tax income when it is received.”

## **PERSONAL PROPERTY LIKE CLOTHING AND TOOTHBRUSHES:**

**Explanation:** Personal property like furniture, appliances, and clothing is not taxed.

**Estimated cost (2003-05):** \$553 million, plus \$109 million shifted on to other property owners.

**Rationale:** To paraphrase the Tax Expenditure Report, it would be difficult – both for taxpayers and tax collecting authorities - to determine the precise value of these items each year.

## **PLEASURE BOATS**

**Explanation:** Certain pleasure boats requiring certificates from the State Marine Board are exempt from property tax.

**Estimated cost (2003-05):** \$26.6 million lost, plus \$5.3 million shifted to other taxpayers

**Rationale:** According to the Tax Expenditure Report, the exemption is similar to the exemption for personal automobiles. In addition, the exemption exists “to avoid administrative problems dealing with a very mobile property.”

### **Other information:**

- Pleasure boat owners pay registration fees to the state. Fees collected in the 2001-03 budget cycle totaled \$5.4 million, much less than the amount lost to property taxes.
- Fees are only slightly higher for large yachts than for small fishing boats.
- Most registered pleasure boats are small. Just 15 percent are longer than 20 feet in length.

## **DEDUCTION FOR ELDERLY MEDICAL EXPENSES (available to all elderly taxpayers):**

**Explanation:** In combination with a separate federal tax break, this deduction allows taxpayers aged 62 and over to deduct all of their medical and dental expenses. It is available to all elderly taxpayers, regardless of income level.

**Estimated cost (2003-05):** \$72 million

**Rationale:** According to the Tax Expenditure Report, “To provide additional tax relief to older taxpayers with medical and dental expenses.”

**Other information:**

- Only available to taxpayers who itemize.
- In 2000, more than 17,000 elderly taxpayers with incomes over \$100,000 took the Oregon deduction for medical costs, costing the state nearly \$9 million that year.
- If the Oregon deduction were eliminated, all taxpayers would still be eligible for a tax deduction if their medical and dental costs exceeded 7.5 percent of their total income.

**HOME MORTGAGE INTEREST DEDUCTION:**

**Explanation:** Homeowners may deduct the amount they spend on mortgage interest for loans valued up to \$1 million. Applies to first and second homes.

**Estimated cost (2003-05):** \$882 million

**Rationale:** According to the Tax Expenditure Report, “To promote home ownership.”

**Other information:**

- Homeowners with very high incomes may not be able to take the full amount of the deduction, because there is a limit on the total amount of itemized deductions they may take. However, nearly 14,574 Oregon taxpayers with adjusted gross incomes over \$200,000 benefited from the Home Mortgage Interest Deduction in 2001. In total, Oregon spent about \$22 million in 2001 alone helping these wealthy homeowners pay their mortgages.

**POLLUTION CONTROL TAX CREDIT:**

**Explanation:** Companies may take a tax credit worth up to 50 percent of the cost of installing pollution control facilities.

**Estimated cost (2003-05):** \$22.8 million

**Rationale:** To paraphrase the statute setting forth the tax credit, its purpose is to reduce pollution by providing tax relief to companies that build pollution control facilities.

**Other information:**

- According to the Oregon Department of Environmental Quality, 75 percent of these credits are approved for projects that companies are required to do by law anyway.
- In at least some cases, installing pollution control facilities that go beyond the law may make economic sense with or without the tax credit.
- The maximum credit available for facilities completed after January 1, 2004 will be 35 percent.

**INTANGIBLE PERSONAL PROPERTY LIKE STOCKS AND BONDS:**

**Explanation:** Stocks, bonds, and savings accounts are exempt from the property tax. In addition, the value of patents, trademarks, and copyrights is also generally exempt.

**Estimated cost (2003-05):** \$8.9 billion, plus \$1.8 billion shifted on to other property owners.

**Rationale:** According to the Tax Expenditure Report, “To avoid administrative problems and inequities that would arise from low compliance. Intangibles are very mobile and easily concealed. . . . A taxpayer could avoid the tax by moving intangibles out of state, converting to tax-exempt bonds, or simply not reporting.”

**Other information:**

- Florida has found that this tax is inequitable because the richest taxpayers are able to pay the experts needed to hide their stocks from taxation, leaving lower income taxpayers to bear more of the tax burden.
- Because stocks tend to fluctuate substantially in value from year to year, they would provide a volatile revenue source for state programs.
- Stocks are taxed when they are sold, through the tax on capital gains.

## SKIT: "HOW DO TAX EXPENDITURES COME ABOUT?"

**Interviewer:** Let's start with Barry Bigcredit. After all, Associated Oregon Industries practically wrote the book on tax breaks. You've successfully lobbied for a wide range of tax credits and exemptions over the years. One great example of your success is the Pollution Control Tax Credit. Why don't you give us a little background?

**Barry (AOI):** Sure. In the 1960s the federal government started requiring companies to build pollution control facilities to meet new environmental regulations. To help companies absorb these new costs, Oregon established the Pollution Control Tax Credit program. The program compensates companies for half the cost of adapting their machinery to meet federal environmental standards. Lots of states adopted similar programs in the 1960s.

**Interviewer:** Sounds like a good way to help companies adjust to new regulations. But why would a program like that still be in existence? Companies have had over 35 years to adapt their equipment to meet the federal regulations passed in the '60s.

**Barry (AOI):** Most states eliminated or scaled back their programs a long time ago. Oregon still has a substantial tax break because AOI and other business lobbying groups have successfully lobbied state legislators over the years. Keeping the credit has been a priority for us, and we have some serious pull in Salem.

**Interviewer:** But are taxpayers getting their money's worth? I mean, isn't Oregon just compensating companies simply for complying with environmental regulations that have been on the books for years?

**Barry (AOI):** That's what our opponents say. But the credit also gives companies an incentive to install pollution control devices that go beyond what the law requires.

**Interviewer:** That might be true, but it doesn't seem like a very cost effective way to do it. According to the Oregon Department of Environmental Quality, only a small portion of the money is actually used for those kinds of projects. Three-quarters of the money goes for projects that would have been completed anyway, because they are required by law. Actually, didn't Governor Kitzhaber try to restructure the tax credit so that it could only be used to support projects that go beyond the basic legal requirements?

**Barry (AOI):** Yes, that was one of his pet projects during the 2001 legislative session. As you can imagine, we were not very pleased. We fought hard to keep the credit intact. And we eventually won, though Kitzhaber did manage to get the size of the tax credit reduced.

**Interviewer:** That must have been frustrating.

**Barry (AOI):** It was. But now that Governor Kitzhaber is out of office, we're working to push through a bill that would restore the credit back to its former size. We also want to extend the "sunset" date for the tax credit so it won't be reviewed by the legislature again for more than 10 years.

**Interviewer:** But this tax break has been so controversial it seems appropriate for the legislature to come back and review it at least every few years. Are legislators really taking you seriously?

**Barry (AOI):** The lobbyists for Associated Oregon Industries always get taken seriously.

**Interviewer:** Okay. Thank you, Barry. Now let's turn to Dina Deduction from the Oregon Association of Realtors. The home mortgage interest tax deduction is one of the biggest tax expenditures on the books. Tell us a little about it, Dina.

**Dina (OAR):** Sure. The home mortgage interest deduction was first created in 1913 as part of a bigger law establishing the nation's first permanent income tax. Initially most people didn't care about it because only the super-rich were paying income taxes anyway. But during World War II, the federal government transformed the income tax from a tax only on the wealthy to a tax on most working Americans. Also, after the war, more middle class people could afford homes than ever before, so the deduction started to matter to a lot more people.

**Interviewer:** What's been happening since then?

**Dina (OAR):** Over the years, the number of taxpayers who qualified for the deduction kept on growing and growing until it became one of the largest federal subsidies in existence. The government never really intended for it to become such a big program, but it just kept expanding because nobody was monitoring it.

**Interviewer:** Oh I see. You mean because it wasn't part of the regular budget process, it just grew of its own accord?

**Dina (OAR):** Right. It was kind of a mistake that it grew so big at first. By the time policy makers started to worry about how big the deduction was getting, the real estate industry had realized what a big money maker this subsidy is for us because it allows people to buy more expensive homes. We've used our political muscle to ward off any challenges to the home mortgage interest deduction ever since.

**Interviewer:** Has the deduction faced a lot of challenges in Oregon?

**Dina (OAR):** Not many. After all, homeownership is like motherhood and apple pie. The main criticism I usually hear is that we shouldn't provide tax deductions for people with vacation homes or million dollar mortgages.

**Interviewer:** You mean people who own houses worth a million dollars can get a tax deduction for that? I thought the deduction was supposed to help the middle class.

**Dina (OAR):** We've fought aggressively to keep the deduction as broad as possible because we make a lot of money on really expensive homes. Protecting the mortgage interest deduction is at the top of our agenda.

**Interviewer:** How much is Oregon spending on the home mortgage subsidy?

**Dina (OAR):** Well, in the current two-year budget cycle, Oregon will spend about \$880 million.

**Interviewer:** Wow, that's huge! I bet the legislature could have a field day making cuts to that program -- if it were funded through the normal budget process. Well, thank you Dina. Now Alice Advocate from the Oregon Center for Public Policy is going to tell us about how the Working Family Child Care Credit came about. Alice, can you start by telling us what the Working Family Child Care credit provides?

**Alice (OCPP):** Yes. It provides a tax credit for low-income families to alleviate the high costs of child care. The credit is equal to 40 percent of child care expenses for families with incomes up to twice the poverty line.

**Interviewer:** So low-income families essentially get a rebate from the state that is equal to 40 percent of the money they spent on child care during the year?

**Alice (OCPP):** That's right, for families with incomes up to twice the poverty line. Families whose income is just a little bit higher are also eligible, but they only get a portion of the credit.

**Interviewer:** OK, so how did the tax credit come about?

**Alice (OCPP):** In 1997, just after federal welfare reform passed into law, Oregon's welfare agency warned legislators that low-income families leaving welfare needed more child care assistance. The agency was telling legislators that child care was a big expense for the working poor.

**Interviewer:** Why did the legislature create a tax credit instead of providing assistance through a government program?

**Alice (OCPP):** Good question. In fact, Oregon does have a program in place that provides child care assistance, primarily to families leaving welfare. So additional assistance could have been provided through that program. But many Republican legislators didn't want to increase the size of government, and advocates felt that pushing for a tax credit would be a good strategic move.

**Interviewer:** Why is that?

**Alice (OCPP):** Tax credits are harder to change once they are in place. Once the legislature reduces taxes through a tax break, it takes a 3/5 vote to eliminate the tax break because it means raising taxes. That means it's harder to get rid of a tax break than it is to get rid of a government program. It takes more votes.

**Interviewer:** Was that the only reason why you pursued the tax credit approach?

**Alice (OCPP):** No, another important reason is that a tax credit puts money directly into people's pockets. There is very little cost to the state in terms of administration. With a government program, on the other hand, the state has to pay for state employees to operate the program.

**Interviewer:** Sounds very efficient. Why would anyone even consider providing assistance through a government program?

**Alice (OCPP):** In some cases government programs are more appropriate than tax credits. State employees can provide a range of services that tax breaks do not provide. For example, a tax break won't give you any job training. Also, government programs can often respond more quickly than a tax break. For example, a single parent needing immediate help with child care costs so that she can go back to work wouldn't benefit much from the tax credit, which only provides help once a year when families do their taxes. That's why it's important to keep the existing government program in place, even as we provide this tax break.

**Interviewer:** Thank you, Alice. So there you have it. These three examples tell us a lot about the different ways that tax breaks come about.

## THE PRICE IS RIGHT, BUT UNFAIR

	<b>HIGH INCOME TAXPAYERS</b>	<b>MIDDLE INCOME TAXPAYERS</b>
Percentage of taxpayers who qualify for enough tax breaks to itemize their tax returns:	95%	
Percentage of taxpayers who benefit from the Home Mortgage Interest Deduction:	82%	
Average tax deduction for medical and dental expenses taken by senior citizens:	\$5,600	
Percentage of taxpayers who benefit from the deduction for real estate taxes paid:	94%	

**“THE PRICE IS RIGHT, BUT UNFAIR”**  
**GAME SHOW ANSWER SHEET**

**1. In order to take advantage of most tax deductions, taxpayers must first qualify for enough deductions to make them eligible to file an "itemized" tax return. About 95 percent of taxpayers with incomes over \$100,000 itemize. What percentage of taxpayers with incomes under \$40,000 itemize?**

ANSWER: 26 percent.

**2. About 82 percent of Oregon households with incomes over \$100,000 benefit from the Home Mortgage Interest Deduction. What percentage of households with incomes under \$40,000 benefit from the Home Mortgage Interest Deduction?**

ANSWER: 15 percent.

**3. Oregon allows seniors – regardless of their income – to deduct their medical and dental expenses. High-income seniors - those with incomes over \$100,000 – were able to reduce their tax liability an average of \$5,600 in 2000 thanks to this break. In contrast, how much on average were seniors with incomes under \$40,000 able to deduct?**

ANSWER: \$1,440.

**4. About 94 percent of Oregon households with incomes over \$200,000 benefit from the deduction for real estate taxes paid. What percentage of households with incomes under \$50,000 benefit from this deduction?**

ANSWER: 21 percent.

Note: In all cases, “income” in these questions refers to adjusted gross income.

Sources: Answers for all questions are based on OCPP analyses of data from the Oregon Department of Revenue (DOR) and the Internal Revenue Service (IRS). Questions 1 and 3 are based on DOR data for tax year 2000, while question 2 is based on preliminary DOR data for tax year 2001. Question 4 is based on IRS Statistics of Income data for Oregon in 2001.