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Legislative review will put focus on 23 tax breaks

On the Capitol Watch blog

A daily reminder for Rep. Vicki Berger about why Oregon's bottle bill matters to her, and an impassioned closing by Sen. Brian Boquist about why Oregon should ban bisphenol A in children's food and beverage containers, are among the blogs this week at StatesmanJournal.com/ capitolwatch.

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Public attention on the 2011 legislative session has focused on many obvious things.

A governor returning for an unprecedented third term. The first evenly split House in state history. A narrowly divided Senate led by a president in a record fifth cycle. The challenge of a $3.5 billion gap between projected income and current services.

Here's one that's not so obvious, but will become increasingly so in the next few weeks — a legislative review of some of Oregon's state tax breaks.

Starting in 1997, a compilation of "tax expenditures" has been issued every two years to coincide with the governor's budget. Oregon has nearly 400 such items — 217 breaks from individual and corporate income taxes, estimated cost $12.1 billion in the two years starting July 1; 123 breaks from local property taxes, estimated at $19.1 billion; and 38 other types amounting to about $150 million.

For comparison, lawmakers have proposed $14.7 billion in discretionary spending from the tax-supported general fund and lottery proceeds in the next two years.

Although the reports began in 1997, the stage for this year's action was set two years ago, when lawmakers put automatic expiration dates on three groups of tax credits, which are subtracted directly from taxes owed. The first group of 23 expires in the next two years; without specific affirmative votes by lawmakers to renew or change them, they will end.

"What lawmakers should be doing is considering these breaks as spending — which they are — and decide whether these are good choices for spending as if they were direct appropriations from the budget process," said Chuck Sheketoff, executive director of the Oregon Center for Public Policy, a think tank based in Silverton that has criticized the lack of scrutiny of tax breaks.

The joint committee reviewing them is led by Sen. Ginny Burdick, D-Portland, and Reps. Jules Bailey, D-Portland, and Vicki Berger, R-Salem.

"Our mission is to justify those tax credits," Berger said, in a process similar to how the Legislature's budget committee looks at direct spending by agencies.

"We are breaking new ground. So far, we've had the easy ones — those with few dollars associated with them. Some will have great advocacy; on the other hand, we had one the other day that no one signed up to talk about it. What does that tell us about that tax credit?"

Berger said she expects the committee will review all of them — including proposals for expanded or new breaks — before deciding on whether to recommend funding any.

What is unclear is whether there is a specific dollar target for the committee. In previous sessions, legislative leaders would decide how much to make available for tax breaks, and then the leaders of the tax-writing committees would decide which ones would be funded.

"I feel they will have to give us a list of what works best, and we will give them a level where we allow them to go," said co-House Speaker Bruce Hanna, R-Roseburg.

The 2011-13 budget of Gov. John Kitzhaber assumed that lawmakers would continue all 23 breaks, at an estimated cost of $38.4 million, a fraction of the total. But the framework released March 29 by the Legislature's chief budget writers assumes current law — that is, zero — for all of them, even the much-debated credits for business investments in alternative energy and spending on film and video production.

In addition, Kitzhaber proposed an expansion of the credit for film and video production, costing about $10 million, and a tax reduction for capital gains reinvested to create jobs in Oregon. He said its $25 million price tag would be in the second year of the budget cycle, when he expects economic conditions to improve.

His proposal appears modest compared with a half-dozen bills, all by Republicans, to reduce, defer or eliminate taxes on capital gains — the profits from the sale of an asset such as stock. Republicans also have proposed bills to eliminate the estate tax, grant credits for home and business improvements and for employers who hire new workers, and reduce taxes on higher-income households and businesses.

But even Hanna, who has proposed the break for property improvements, said there is a limit to what can be considered.

"I cannot see them taking a big bite out of the pie when they know the condition we're in," he said.

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