

Tax breaks may be why budget's broken

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The state's financial crisis — the one that is decimating public schools, health care and law enforcement — could have been avoided. Even the divisive income-tax Measures 66 and 67 probably were unnecessary.

But don't take our word for it. Ask Steve Robinson.

He is a retired public and private employee whose idea of a good time is crunching a dozen years' data about Oregon tax expenditures. Legislators owe it to themselves, and to their constituents, to see his presentation. The data are so eye-opening that they could dramatically alter the final weeks of the 2011 legislative session.

Robinson's bottom line is that Oregon has been handing out tax breaks — officially called tax expenditures — far faster than it collects taxes.

The current Legislature is reviewing some tax breaks, which is a positive step but insufficient.

The state has close to 400 of those tax expenditures. They come as deductions, exemptions, reductions, exclusions, deferrals, credits and other tax breaks. Many are worthwhile. Some may be of dubious value as there's little concrete data to support their effectiveness. And some, such as Oregon's much-maligned Business Energy Tax Credit, have spiraled out of control.

Since 1999-2001, tax expenditures have gobbled up a steadily increasing percentage of the state's potential revenue. "The system adds up to a problem," Robinson said in a bit of understatement.

If Oregon had instead held the line, the state could have had an additional \$2.7 billion in general fund and lottery dollars to spend during 2011-13. Conservatively, that money also could have brought in an additional \$1 billion in federal matching funds.

We don't agree with some of Robinson's conclusions. He questions the value of Oregon's home-mortgage interest deduction and the wisdom of a capital gains reduction. We believe home ownership, local ownership of property and family ownership of businesses are sound policy because they build strong, involved communities. Thus we support the mortgage interest deduction, a hefty capital gains reduction and curtailment of the estate tax.

Despite our disagreements with some conclusions, we think Robinson's data need widespread discussion in the Oregon Capitol. He is raising critical issues, including:

-Every tax expenditure should be analyzed periodically as to how well it is achieving its desired goal. For example, if job creation is the goal, how many — verifiable — permanent jobs were created and at what salary and benefit levels?

Whom to contact Link

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State of Oregon 2011-13 Tax Expenditure Report:
<http://1.usa.gov/inmccL>

Robinson notes that the state's most-effective job creation program would be to invest more in long-term care. For every \$1 million restored to the Oregon Department of Human Services budget for that purpose, 88 private-sector jobs could be retained or created. Many are low-wage jobs, but low pay is better than no pay.

In contrast, spending \$1 million on business tax credits to promote private-sector hiring will result in only 23 jobs being created, although those could be at higher pay.

-Small or token tax exemptions generally are worthless. Individually, they're too tiny to affect human behavior in the desired direction — which is the role of tax exemptions. Added together, they cost the state a fair amount of money.

For that reason, Oregon should regularly re-examine its connections to the federal tax code.

-Tax expenditures deserve as much scrutiny as regular spending. Some should be replaced with grant or loan programs, which provide greater oversight while involving the same amount of money.

-Tax breaks for individuals and families should be indexed according to their income.

-The Legislature should be consistent in its handling of tax breaks. It can grant a tax break on a majority vote, but a supermajority may be required to undo that tax break.

Tax breaks can be good. But legislators should see what they're actually buying with that money.