Child Care Tax Credits

Chris Allanach
Legislative Revenue Office
2-16-2015

Tax Credit Policy Questions

- What is the Public Policy Purpose?
- Who are the beneficiaries?
- Ramifications of complete sunset?
- Administrative and compliance costs?
- Comparison to a direct appropriation?
- Structural Changes?

Consumer Child Care Tax Credits

- Child and Dependent Care Tax Credit
- Working Family Child Care Tax Credit
- Policy purposes:
  - Offset child care costs
  - Financial assistance for working parents

Federal Tax Calculation

Income: Wages, Business, Interest

minus

Adjustments: IRAs, Student Loans

equals

Adjusted Gross Income (AGI)

minus

Exemptions and Deductions

equals

Federal Taxable Income

Oregon Tax Calculation

Adjusted Gross Income (AGI)

plus

Additions: Bond interest

minus

Subtractions: Social Security

minus

Deductions

equals

Oregon Taxable Income

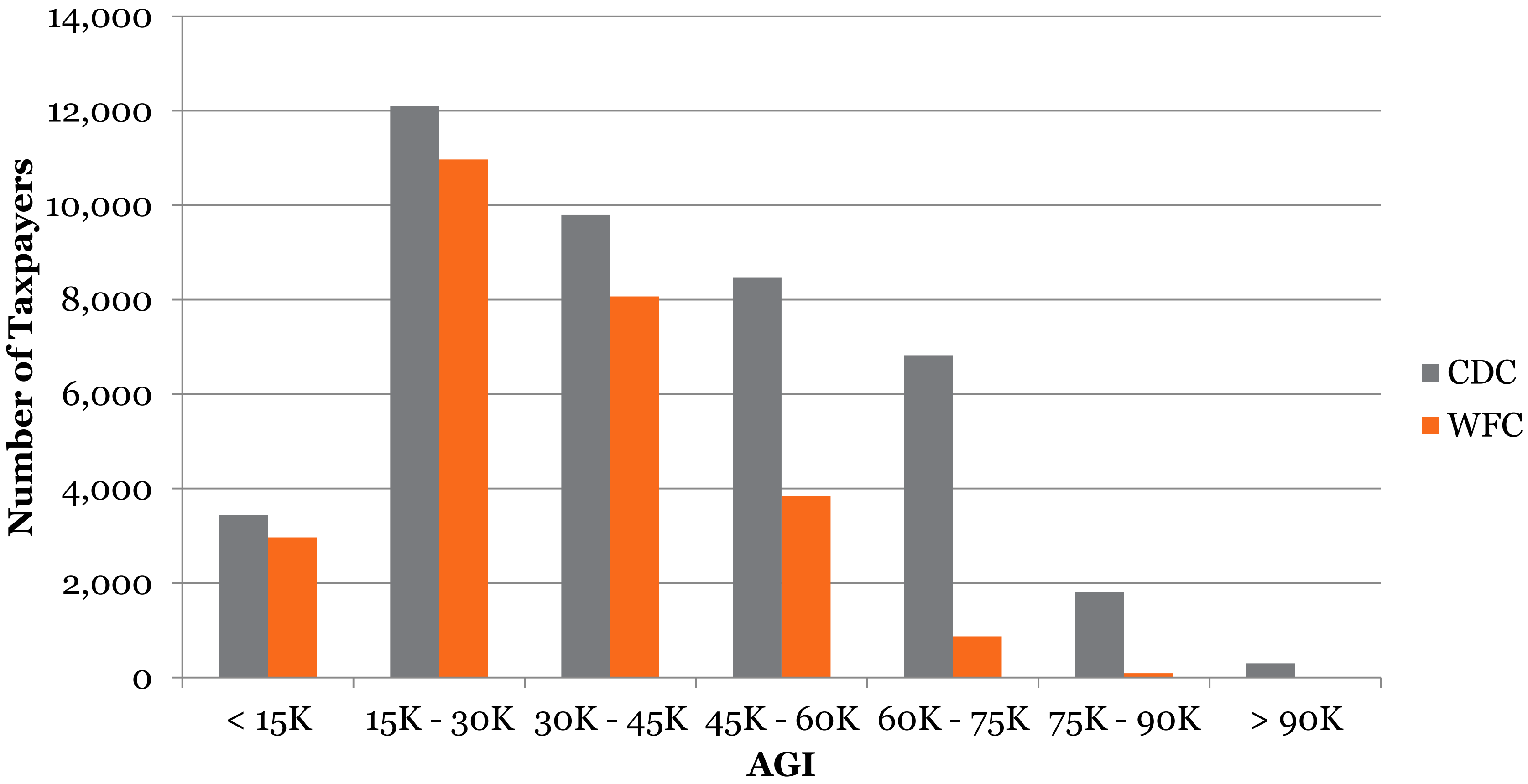
CDC & WFC Example
(Family of 3, $250 child care per month)

Income (AGI)	$20,000
Standard deduction	-$3,405
Taxable income	=$16,595
Gross tax	$1,032
Personal exemption credits	-$573
Tax before child care tax credits	=$459
Child and dependent care tax credit	-$900
Tax after the CDC	=$0
Working family child care tax credit	$1,200

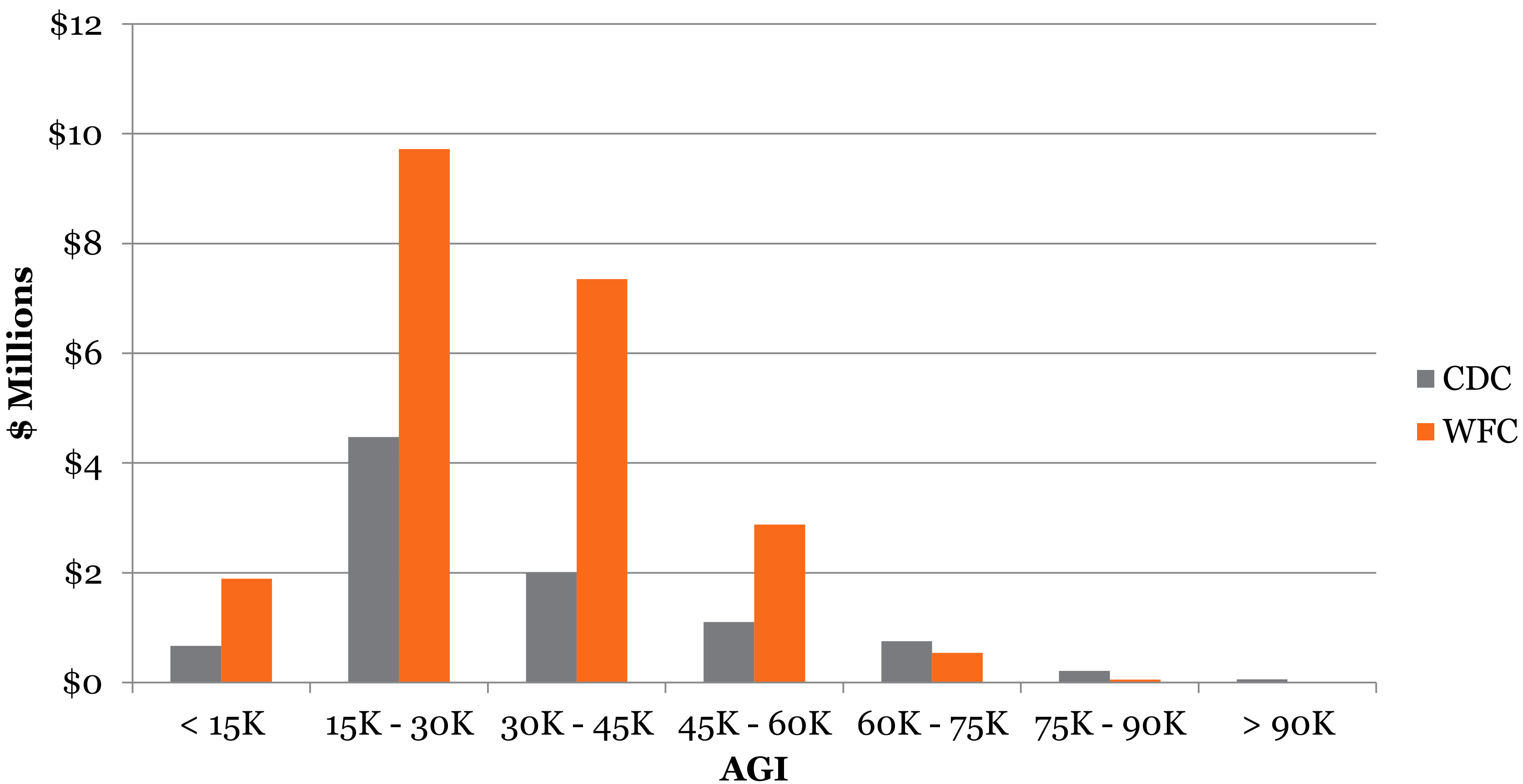
Tax Credit Beneficiaries

Tax Year 2012

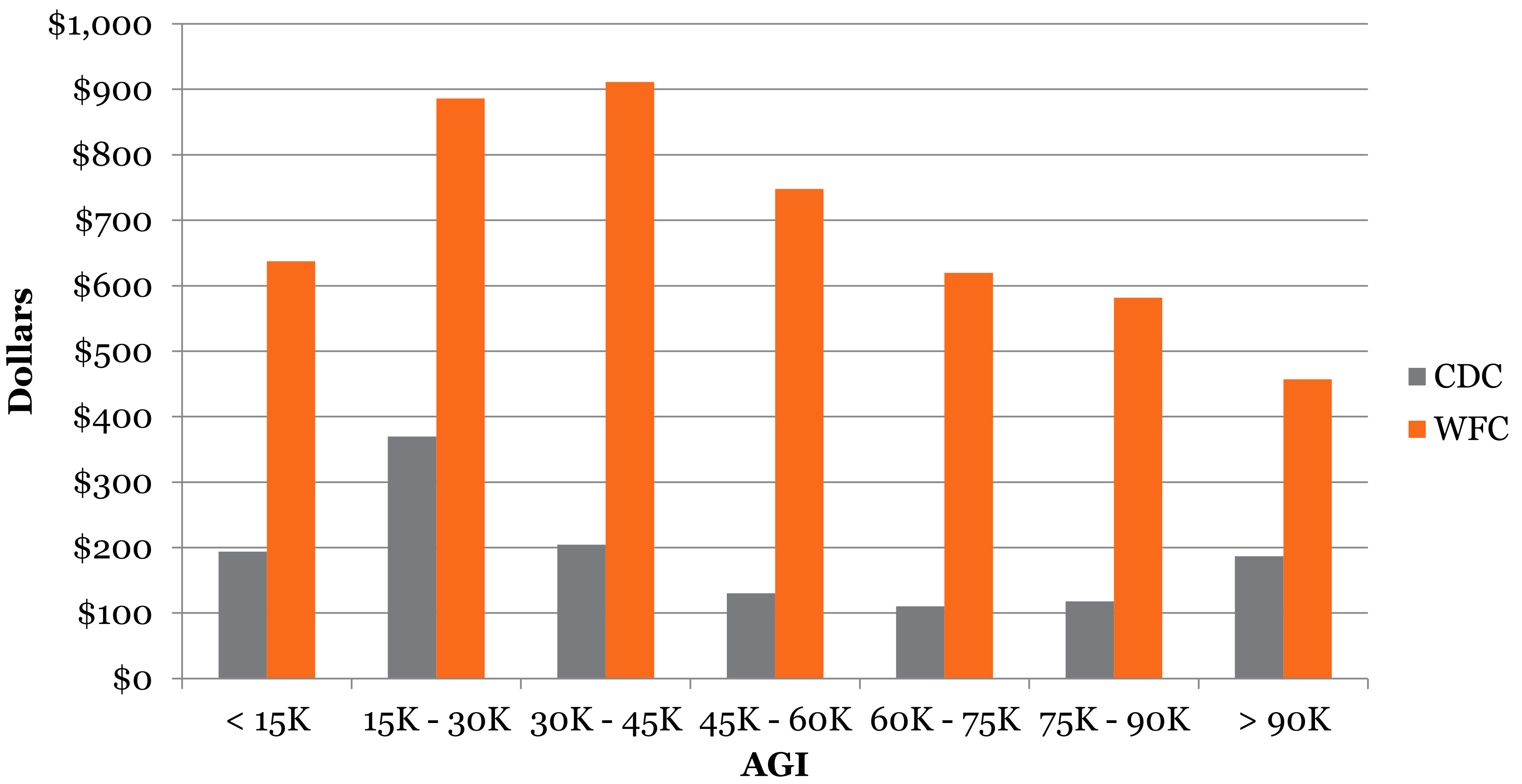
CDC and WFC Claimants



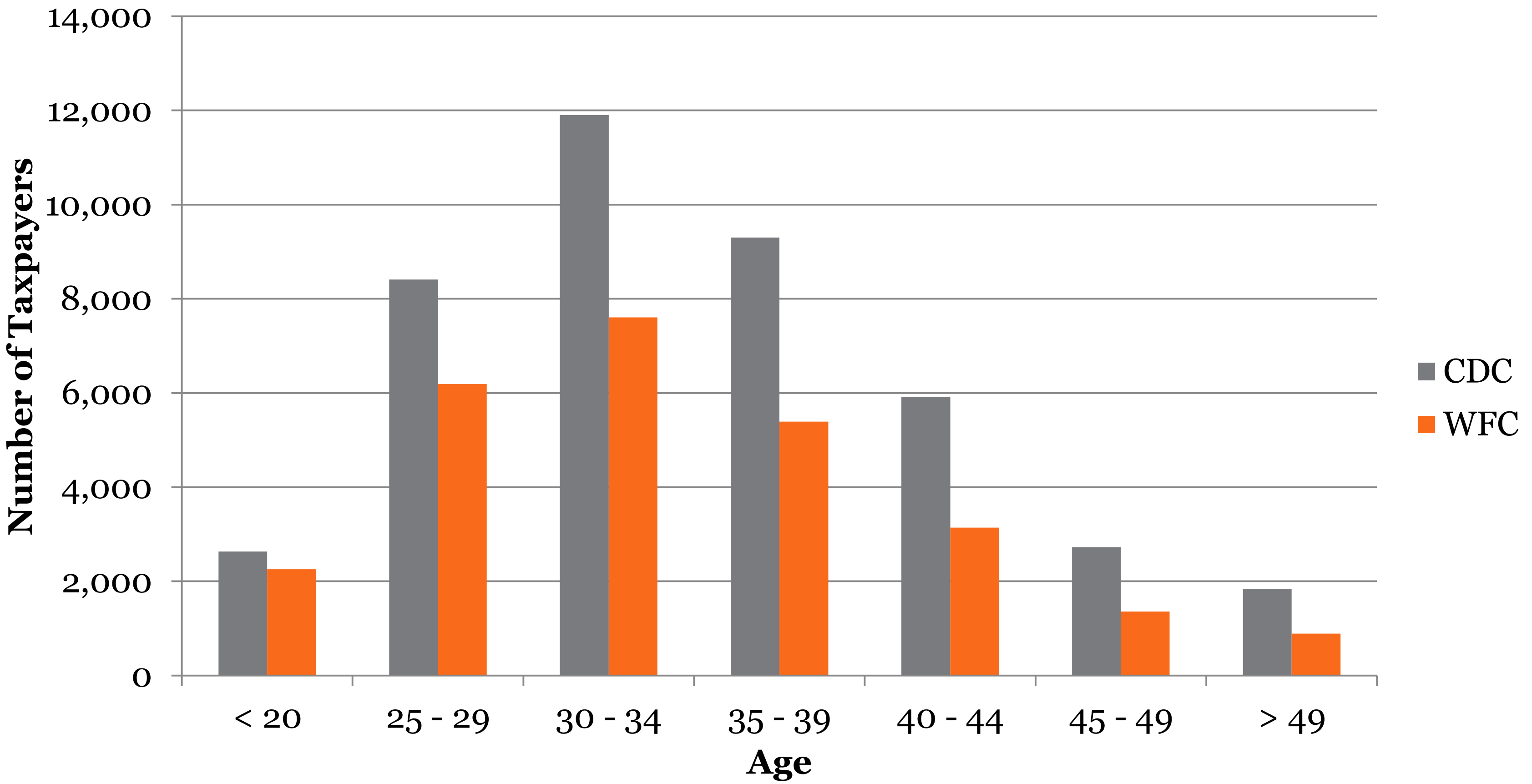
CDC and WFC Tax Credits Used



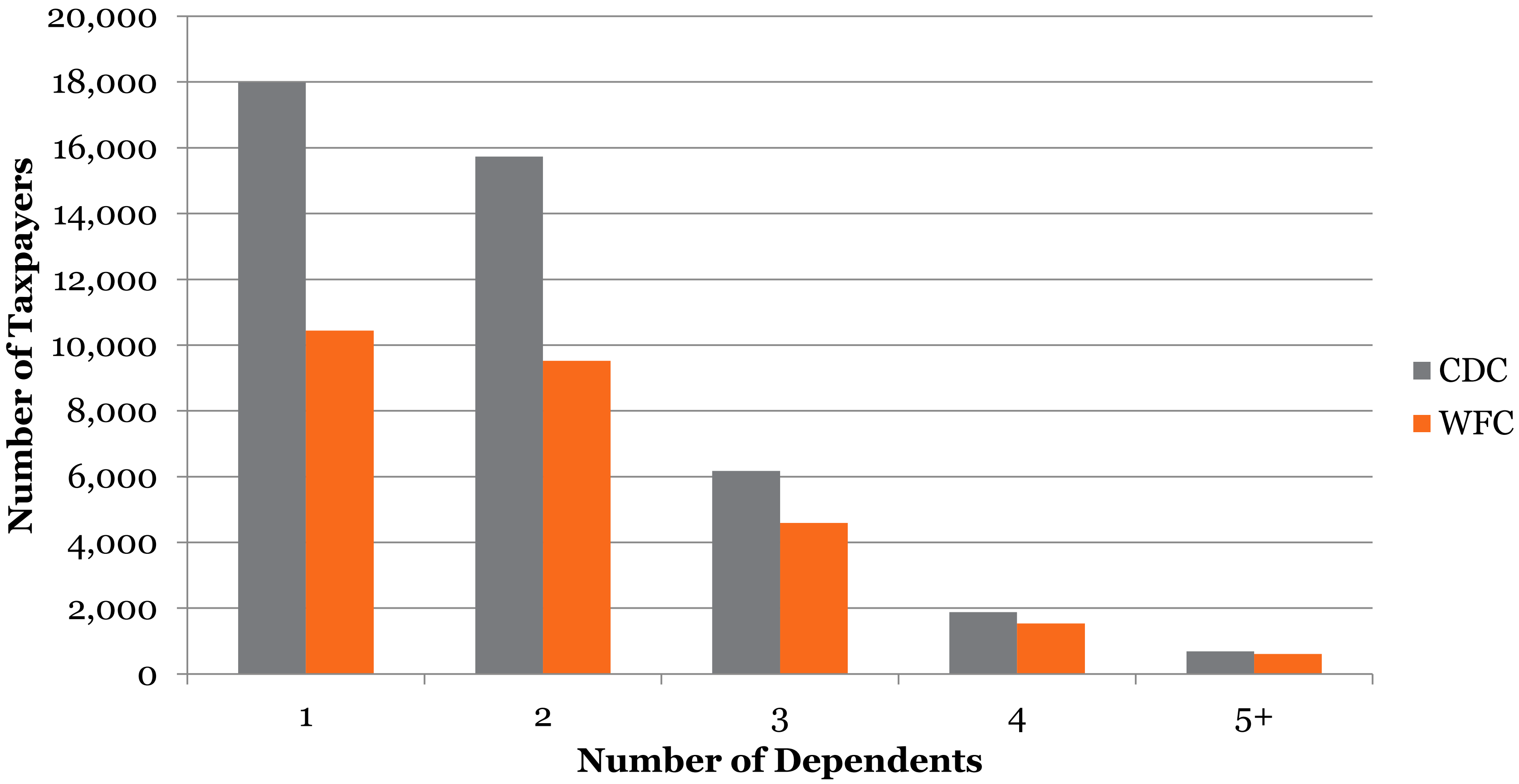
Average CDC & WFC Tax Credit



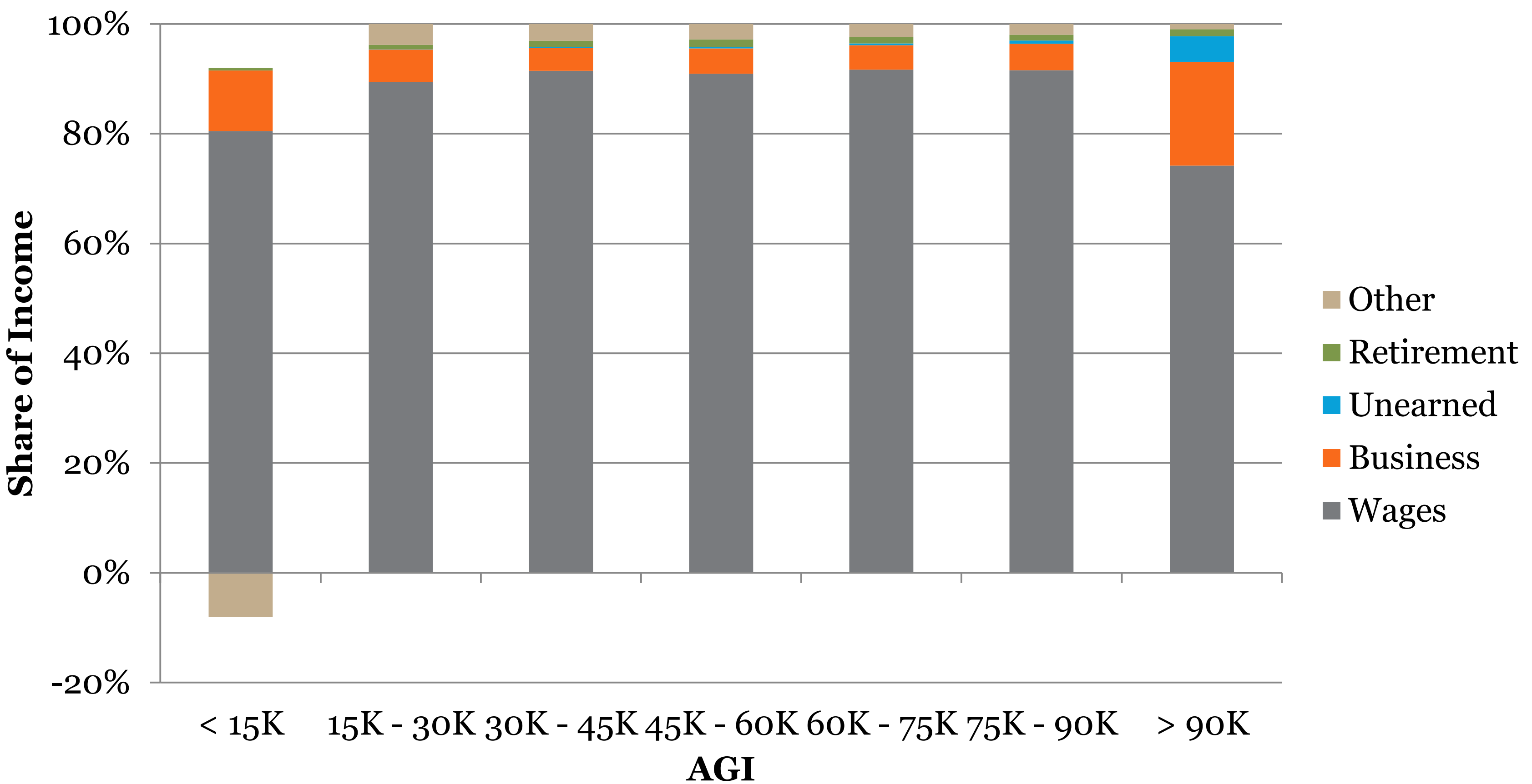
CDC & WFC Claimants by Age



CDC & WFC Claimants and Dependents



Income of CDC & WFC Claimants



Tax Credit Policy Options

Some Policy Options

- Maintain both tax credits
- Consolidate the two tax credits
  - Pull the CDC into the WFC
  - Pull the WFC into the CDC
- Keep one child care credit and increase the Earned Income Tax Credit (EITC)

Maintain Both Tax Credits

- Scale downward to fit tax credit "budget"
- Maintain current structure
- Increase one or both tax credits
  - Adjust income levels
  - Adjust share of eligible expenses used to determine tax credit amount

Pull the CDC into the WFC

- Eliminate the CDC and apply $7.8 million in savings to increase the WFC
  - Increase the credit percentage by roughly 33%
- WFC advantages
  - Refundable
  - No limit on eligible expenses
- WFC disadvantages
  - Higher administrative costs
  - Not tied to federal law

Pull the WFC into the CDC

- Eliminate the WFC and use the $21.8 million to increase the CDC
  - Double the percentage used to determine the tax credit amount (preliminary estimated cost of $16M)
  - Increase cap on eligible expenses
  - Change phase-out schedule from FTI to AGI (e.g., $45,000 FTI is roughly $83,000 AGI)
  - Make refundable

Pull the WFC into the CDC & EITC

- Eliminate the WFC and use the $21.8 million in savings to increase the CDC and the EITC
  - Double the credit percentages (preliminary estimated cost of $8M)
  - Increase the EITC percentage to roughly 10% (preliminary estimated cost of $13.8M)
  - Increase the EITC percentage for recipients with young children