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81st LEGISLATIVE ASSEMBLY
House Committee on Human Services
State Capitol
900 Court St. NE, Rm. 453
Salem, OR 97301

To: Representative Nathanson, Chair, House Committee on Revenue

From: Chair Williams

Date: April 5, 2020

Subject: HB 2721 – Allows working family household and dependent care income tax credit to be claimed for expenses to allow taxpayer or spouse to attend school only as an enrolled degree-seeking student for tax years beginning on or after January 1, 2020, and before January 1, 2022.

The House Committee on Human Services heard HB 2721 and recommends passage. If passed, this bill allows working family household and dependent care income tax credit to be claimed for expenses to allow taxpayer or spouse to attend school only as an enrolled degree-seeking student for tax years beginning on or after January 1, 2020, and before January 1, 2022.

Below are responses to questions posed by Rep. Nathanson, in a memo distributed to the House Policy committee chairs on February 4, 2021 and the Legislative Revenue Office's Research Report #2-21, Tax Credit Review: 2021 Session. The responses are based upon the report's findings and the [name] Committee's deliberations.

1. What is the public policy purpose of the tax expenditure?

   - Oregon's WFHDC is but one component in the larger provision of support provided to households where care is required for younger household members or disabled household members, in order to allow other household members to be employed, seek employment or attend school.

2. What is the expected timeline to achieve the policy goal?
   N/A

3. Who are the direct beneficiaries?

   - The WFHDC credit is a refundable personal income tax credit available to low- and middle-income households with employment related dependent care expenses. Oregon taxpayers that have a child under the age of 13 claimed as a dependent by the taxpayer, a disabled spouse who isn't physically or mentally able to care for themself and lived with tax filer for more than half the year , any disabled person who isn't physically or mentally able to care for themself and lived with the taxpayer for more than half the year.

4. Is it an effective and efficient way to achieve the policy goal?

   - In 2018 27,760 Oregon taxpayers have claimed this credit. According to Oregon Department of Revenue data (2020), WFHDC and EITC credits benefit lower- and moderate-income households to a greater extent than the federal child tax and child and dependent care credits.

5. What information is available from other states with a similar policy?

   - Oregon's WFHDC credit is similar in many ways to the federal Child and Dependent Care credit (Oregon references many of the Internal Revenue Code definitions). A key difference between Oregon's credit and the federal credit is that the federal credit is not refundable. Credit non-refundability means the credit only benefits taxpayers with sufficient tax liability. Many other states provide state child and dependent care tax credits. Often the state credits are based off or related in some way to the federal credit.

6. Are there suggested changes to make the tax expenditure more effective or efficient?

   - No changes suggested during discussions in the House Committee on Human Services.

7. What other direct and indirect expenditures does Oregon make to achieve the same or similar policy goal?

   - Earned income tax credit, child tax credit, child & dependent care (federal), OR Employment Related Day Care (ERDC) program.

8. Would a direct appropriation be more efficient?
   N/A

9. What other kinds of incentives might achieve a similar policy goal?

   - Earned income tax credit, child tax credit, child & dependent care (federal), OR Employment Related Day Care (ERDC) program.

10. What are the consequences of allowing the tax expenditure to sunset?

- The intent of the WFHDC credit is not for the credit to work in isolation but rather work as a complimentary policy to other child/dependent care expense offsetting policies and the broader income enhancement policies available to working households of low to moderate income.
- The overall average benefit from the credit was $1,100. As the credit is a refundable income tax credit, taxpayers receive the full benefit of the credit regardless of the taxpayer’s tax liability.