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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 2440 – Extends sunset for tax credit for working family dependent care for taxpayers attending school, working, or looking for work to January 1, 2028.

The House Committee on Human Services heard HB 2440 and recommends passage. If passed, this bill extends sunset for tax credit for working family dependent care for taxpayers attending school, working, or looking for work to January 1, 2028.

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?
   - Design policy that encourages or enables people to maintain, return and/or enter workforce (accounting for other government transfer payments).

To enable low-income working families to care for young children and disabled dependents by offsetting care costs so that they may be gainfully employed or attending school full-time. The desired effect…is to provide additional tools to help these families climb out of poverty.
(Rep. Keny-Guyer, 2015)

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

3. Who are the direct beneficiaries?
- Low- and middle-income households with employment and school related dependent care expenses. In 2018, the total cost of the credit was $30.5 million with over fifty percent of the credit (by value) going to taxpayers with income below $32,900. 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.

4. Is it an effective and efficient way to achieve the policy goal?
   - 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. From a perspective of providing additional tools to help families climb out of poverty, it is helpful to view the credit as it exists and interacts with other transfer payments and tax credits.

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

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?

   - The table below details tax credits and direct spending programs in Oregon that overlap with the policy of the WFHDC credit.

	2019-21 Legislatively Adopted Budget	
	General Fund ($M)	**Federal Funds ($M)**
Other Tax Credits		
Earned Income	106.6	1150
Child with a Disability	9	
Severe Disability	9.2	
Child		1935
Dependent Care		78
Direct Spending Program		
Employment Related Day Care (ERDC)	66.5	116.3
Preschool Promise	37.1	
Oregon Head Start	156.4	122.4
Early Head Start	1.7	64.2
Baby Promise		11

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

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

- 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 Employment Related Day Care (ERDC) program provides subsidies to qualifying parents (working with income below 185% of federal poverty level) to offset the cost of child care of children through age 12. The ERDC is primarily a voucher program that requires parents to pay a copay (paid to child care provider) that increases as income as percentage of FPL increases. Programs that offset child care costs, such as the ERDC, can reduce use of the WFHDC credit as the credit amount is determined based on employment related expenses paid by the taxpayer. ERDC copayments can qualify for employment related expenses and therefore can be offset by the WFHDC credit. A key policy difference between the ERDC and the WFHDC credit is timing of benefit.

10. What are the consequences of allowing the tax expenditure to sunset?
    - Census statistics suggest a need of financial support for such families in obtaining paid child care, which this credit helps with. According to Oregon State University research (Pratt, Chandler, Barrett-Rivera, Thogmartin, & Weber, 2020), only families making above the median income in Oregon can afford child care. In Oregon, there are about 265,000 children under the age of six and about 600,000 children under the age of thirteen (U.S. Census Bureau, 2019). Of both respective groups, about one-third live below 200% of the federal poverty level (U.S. Census Bureau, 2019).