

**FISCAL IMPACT OF PROPOSED LEGISLATION****Measure: HB 2623**

82nd Oregon Legislative Assembly – 2023 Regular Session

Legislative Fiscal Office

*Only Impacts on Original or Engrossed Versions are Considered Official*

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**Measure Description:**

Creates income tax credit for child care workers employed in rural areas.

**Government Unit(s) Affected:**

Department of Revenue, Department of Early Learning and Care, Judicial Department

**Summary of Fiscal Impact:**

Costs related to the measure may require budgetary action - See analysis.

**Summary of Expenditure Impact:**

	<b>2023-25 Biennium</b>	<b>2025-27 Biennium</b>
<b>Department of Revenue</b>		
<b>General Fund</b>		
Personal Services	\$130,487	\$447,398
Services and Supplies	\$24,995	\$20,291
<b>Total General Fund</b>	<b>\$155,482</b>	<b>\$467,689</b>
<i>Total Funds</i>	\$155,482	\$467,689
<i>Positions</i>	3	3
<i>FTE</i>	0.87	3.00
<b>Department of Early Learning and Care</b>		
<b>General Fund</b>		
Personal Services	\$174,444	\$232,592
Services and Supplies	\$193,356	\$24,474
<b>Total General Fund</b>	<b>\$367,800</b>	<b>\$257,066</b>
<i>Total Funds</i>	\$367,800	\$257,066
<i>Positions</i>	1	1
<i>FTE</i>	0.75	1.00
<b>Total General Fund</b>	<b>\$523,282</b>	<b>\$724,755</b>
<b>Total Fiscal Impact</b>	<b>\$523,282</b>	<b>\$724,755</b>
<i>Total Positions</i>	4	4
<i>Total FTE</i>	1.62	4.00

**Analysis:**

House Bill 2623 creates an income tax credit for individual child care workers who are employed for at least 600 hours during the tax year as a staff member at a certified child care facility located in a rural area of the state. The credit is available to resident and nonresident taxpayers alike. The credit is allowed only if the child care facility that employs the taxpayer is certified or has been issued a temporary certification from the Office of Child Care and all staff members of the facility have received 18 or more clock hours of training related to child care during the tax year, with some limited exceptions. The amount of the credit allowed is based on the distance of the certified child care facility at which the taxpayer is employed from the largest city within a qualified metropolitan statistical area, ranging from \$3,000 to \$5,000, depending on the location. The tax credit must be claimed on a

form prescribed by the Department of Revenue (DOR). The tax credit applies from tax year 2024 through tax year 2029 and sunsets on January 1, 2030. The measure takes effect 91 days after adjournment *sine die*.

### **Department of Revenue**

The measure is anticipated to have a fiscal impact on DOR. The tax credit would be claimed on the existing income tax schedule form (OR-ASC), which is used to report additions, subtractions, and various tax credits that are not included on the standard personal income tax form. DOR's IT Services section would need to update forms and publications, which would require a new code/credit to be added to Quick Modules. Additionally, DOR's Personal Income Tax section would need to create new instructions and explanation code, update electronic filing submission documents for vendors, update documentation for season up tracking and programming, implement explanation codes/letter changes and system edits, and test system changes prior to the 2024 tax year. This increase in workload is anticipated to be minimal and absorbable within DOR's 2023-25 current service level.

According to DOR, there are an estimated 6,325 individual taxpayers that would be eligible to claim the tax credit. Assuming 6,325 individual taxpayers claim the credit, the measure is anticipated to increase the suspense workload of staff that process tax returns and respond to taxpayer inquiries, including correspondence, phone calls, and appeals. Based on these assumptions, DOR may need to hire three additional positions (0.87 FTE), including two full-time Administrative Specialist 2 positions (0.58 FTE) to process the tax credit claims and verify compliance, and one full-time Public Service Representative 3 position (0.29 FTE) to respond to taxpayer inquiries and correspondence. The estimated fiscal impact of these positions, including related services and supplies, is \$155,482 General Fund in the 2023-25 biennium and \$467,689 General Fund in the 2025-27 biennium.

The Legislative Fiscal Office acknowledges, though, that these additional positions would no longer be needed after the tax credit sunsets on January 1, 2030.

### **Department of Early Learning and Care**

The measure is anticipated to have a fiscal impact on the Department of Early Learning and Care (DELIC). To comply with the measure, DELIC would need to create a new reporting tool to provide DOR with information that identifies qualifying child care facilities, qualifying staff, qualifying training hours, and a way to document and collect personal identifying information required by DOR to align with tax returns. Because the 18 hours of annual training would not align with the 15 annual hours required by the Office of Child Care licensing requirements, DELIC believes that additional data analysis would be needed to verify that an individual has met the required annual training to be eligible for the credit. The estimated cost of this additional analysis is anticipated to be \$175,000 General Fund in the 2023-25 biennium, which DELIC would use to hire a third-party contractor for professional services.

DELIC anticipates needing a limited duration, full-time Operations and Policy Analyst 3 position (0.75 FTE) to develop and administer new rulemaking; develop and enforce the new tax credit certification process; and educate and coordinate with child care facilities and child care providers on complying with the measure. The estimated cost of this position, including related services and supplies, is \$192,800 General Fund in 2023-25 and \$257,066 General Fund in 2025-27. The total estimated fiscal impact to DELIC is \$367,800 General Fund in 2023-25 and \$257,066 General Fund in 2025-27.

### **Judicial Department**

The measure is anticipated to have a minimal fiscal impact on the Judicial Department.

### **Estimated Total Fiscal Impact**

The estimated total fiscal impact to DOR and DELIC, including four positions (1.62 FTE in 2023-25; 4.00 FTE in 2025-27), is \$523,282 General Fund in 2023-25 and \$724,755 General Fund in 2025-27.

The measure warrants a subsequent referral to the Joint Committee on Ways and Means for consideration of its impact to the State's General Fund and the biennial budgets of DOR and DELC.