HB 3235 A STAFF MEASURE SUMMARY

House Committee On Early Childhood and Human Services

Action Date:	03/29/23
Action:	Do pass with amendments and be referred to Tax Expenditures by prior reference. (Printed A-Eng.)
Vote:	10-0-0-0
Yeas:	10 - Andersen, Cramer, Elmer, Hartman, Hieb, Nelson, Neron, Nguyen H, Reynolds, Scharf
Fiscal:	Fiscal impact issued
Revenue:	Revenue impact issued
Prepared By:	Matthew Perreault, LPRO Analyst
Meeting Dates:	2/27, 3/29

WHAT THE MEASURE DOES:

Creates refundable income tax credit for resident with qualifying dependent children under age six of $1,200 per dependent. Limits claims to five dependents per tax return. Limits eligibility to taxpayers with federal adjusted gross income under $50,000 for joint return or $30,000 otherwise. Prescribes formula for reducing credit amount for taxpayers with adjusted gross income over $40,000 for joint return or $20,000 otherwise. Directs Department of Revenue to annually adjust credit amounts and phaseout thresholds for inflation. Allows amount of credit to be prorated according to changes in taxpayer status or taxable year. Provides that credit is not subject to judicial execution of judgment or garnishment. Applies to tax years between 2024 and 2030. Takes effect on 91st day following adjournment sine die.

ISSUES DISCUSSED:

- Temporary expansion of federal child tax credit
- Economic impact of tax credits
- Implications for public health and safety

EFFECT OF AMENDMENT:

Limits qualifying child dependents that taxpayer may claim for tax credit to those under age six who satisfy criteria specified in Internal Revenue Code, without regard to child's citizenship or nationality. Limits claims to five dependents per tax return. Clarifies that qualifying income limit refers to adjusted gross income on federal tax return. Provides that credit be computed after allowance of any other credit or offset against tax liability. Removes eligibility of nonresident taxpayer to claim credit.

BACKGROUND:

A tax credit is a reduction in the amount of taxes owed to the State of Oregon, which may include both income and excise taxes owed by individuals and corporations. Tax credits are also considered "tax expenditures" because they represent foregone revenue by the state, essentially an expenditure, enacted in order to achieve a policy objective. Oregon law provides for several types of tax credits that are designed to incentivize certain behavior or alleviate pressures faced by taxpayers. Certain tax credits may be refundable, meaning that the amount refunded to the taxpayer may exceed the amount of taxes paid to the state, resulting in a net benefit to the taxpayer.

Tax credits also exist at the federal level. The federal tax code allows for families with dependent children to claim a partially refundable tax credit of up to $2,000 per child, with reductions at the upper and lower ends of the income scale. During the COVID-19 public health emergency, the federal child tax credit was temporarily expanded to a near-universal, fully refundable direct payment of up to $3,600 per child under the American Rescue Plan Act; this expansion was allowed to sunset at the end of 2021. Additional changes to the tax credit that were made under the Tax Cuts and Jobs Act of 2017 will sunset at the end of 2025. According to researchers at the U.S. Census Bureau, the 2021 expansion of the child tax credit resulted in 5.3 million Americans, including 2.9 million children, being lifted out of poverty.

House Bill 3235 A creates a refundable income tax credit of $1,200 per dependent under age six and prescribes income limits, phaseout formulas, and adjustments for inflation.