

Child Care Tax Credits



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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)

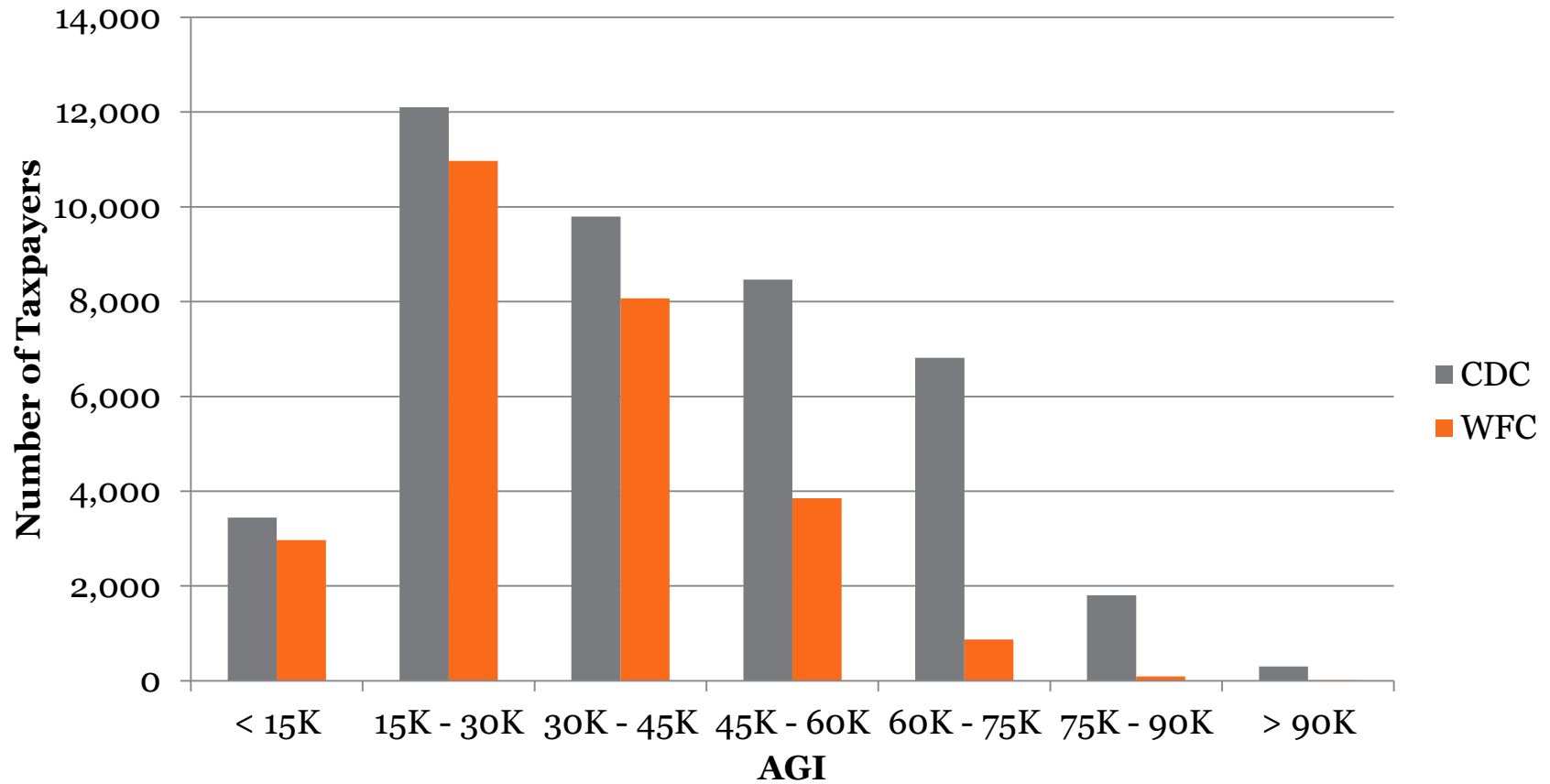
Income (AGI)	\$20,000
Standard deduction	-\$3,405
Taxable income	=\$16,595
Gross tax	\$1,032
Personal exemption credits	-\$573
Tax before child care tax credits	=\$459
Child and dependent care tax credit	-\$900
Tax after the CDC	=\$0
Working family child care tax credit	\$1,200



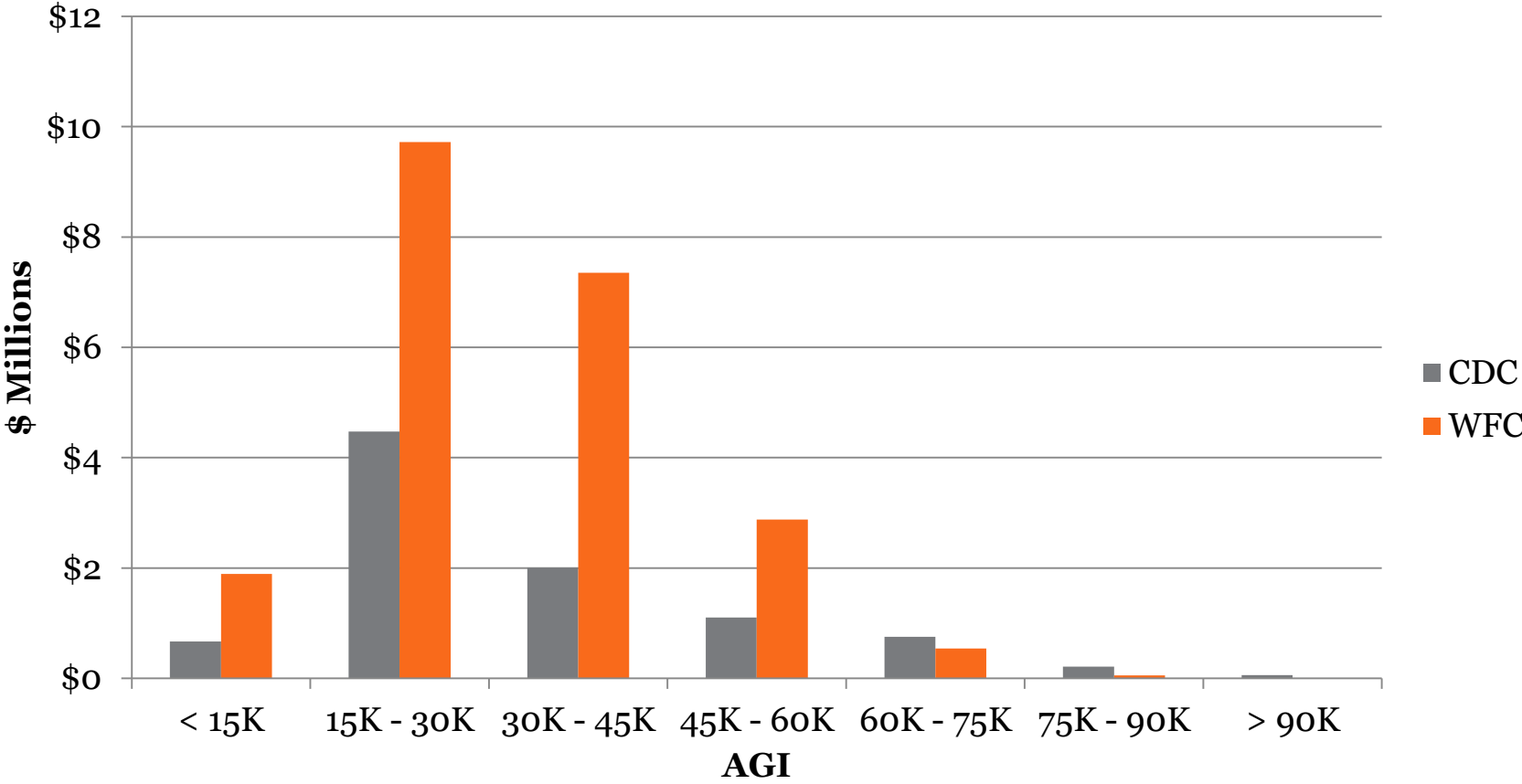
Tax Credit Beneficiaries

Tax Year 2012

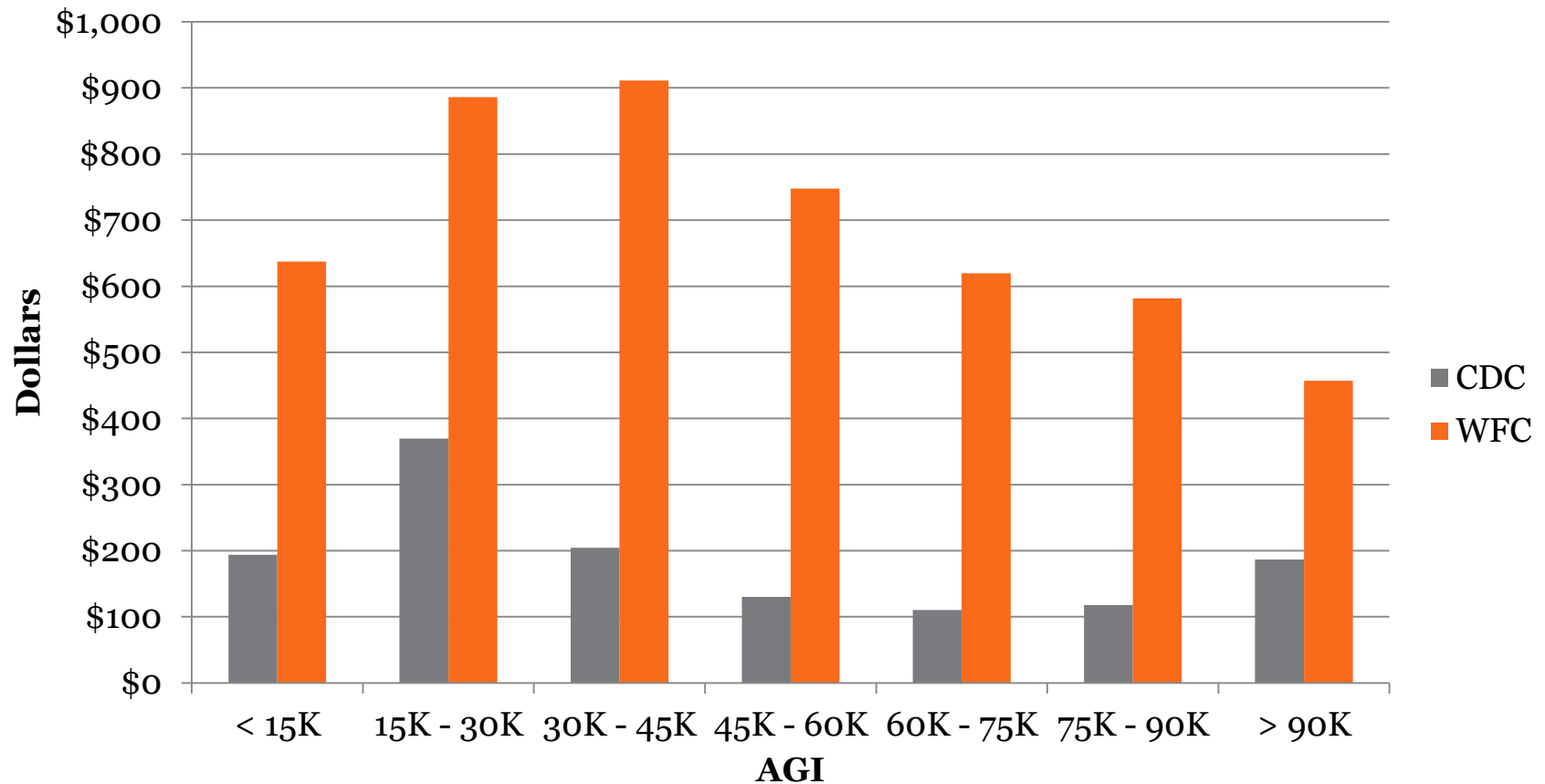
CDC and WFC Claimants



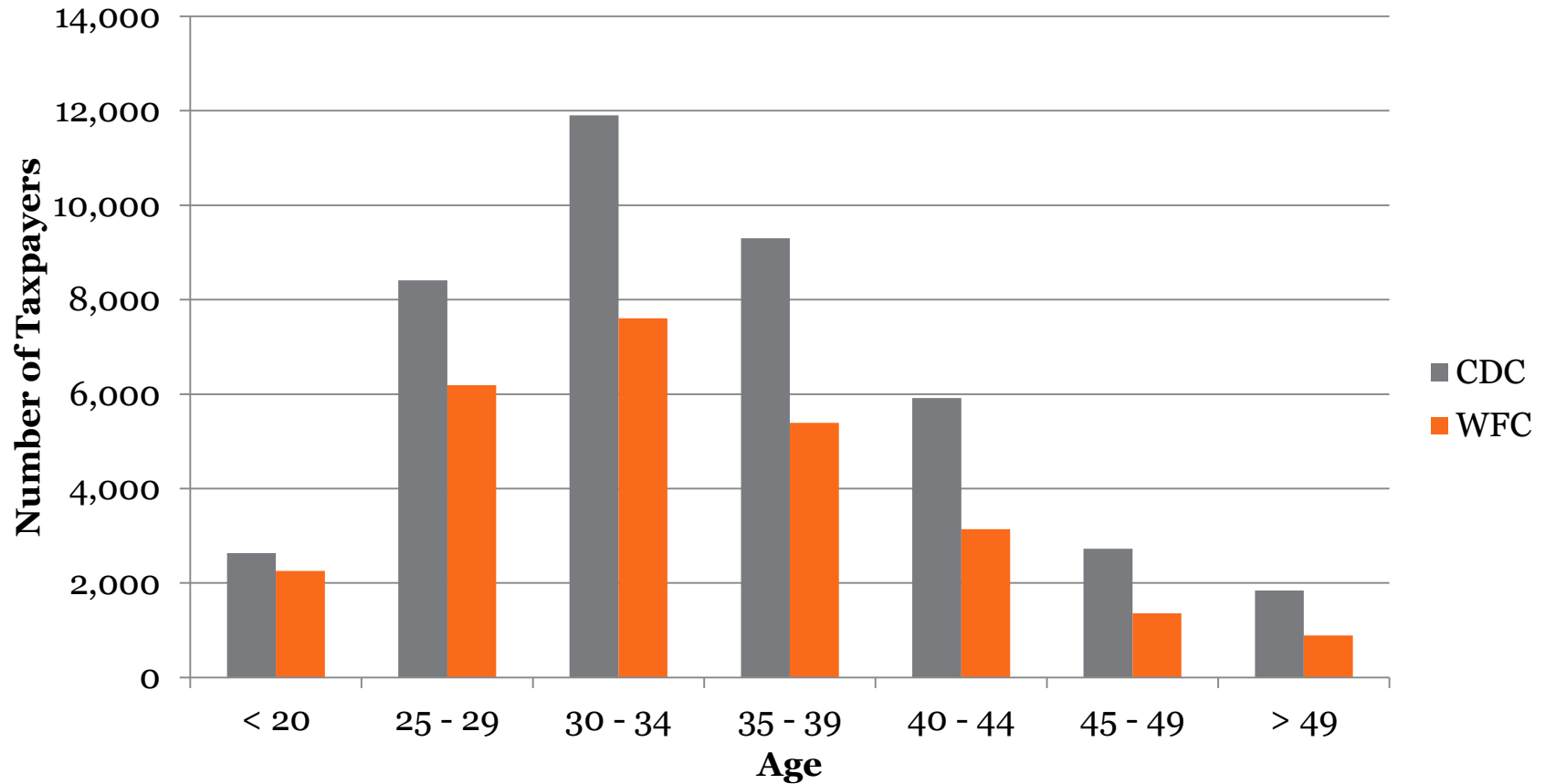
CDC and WFC Tax Credits Used



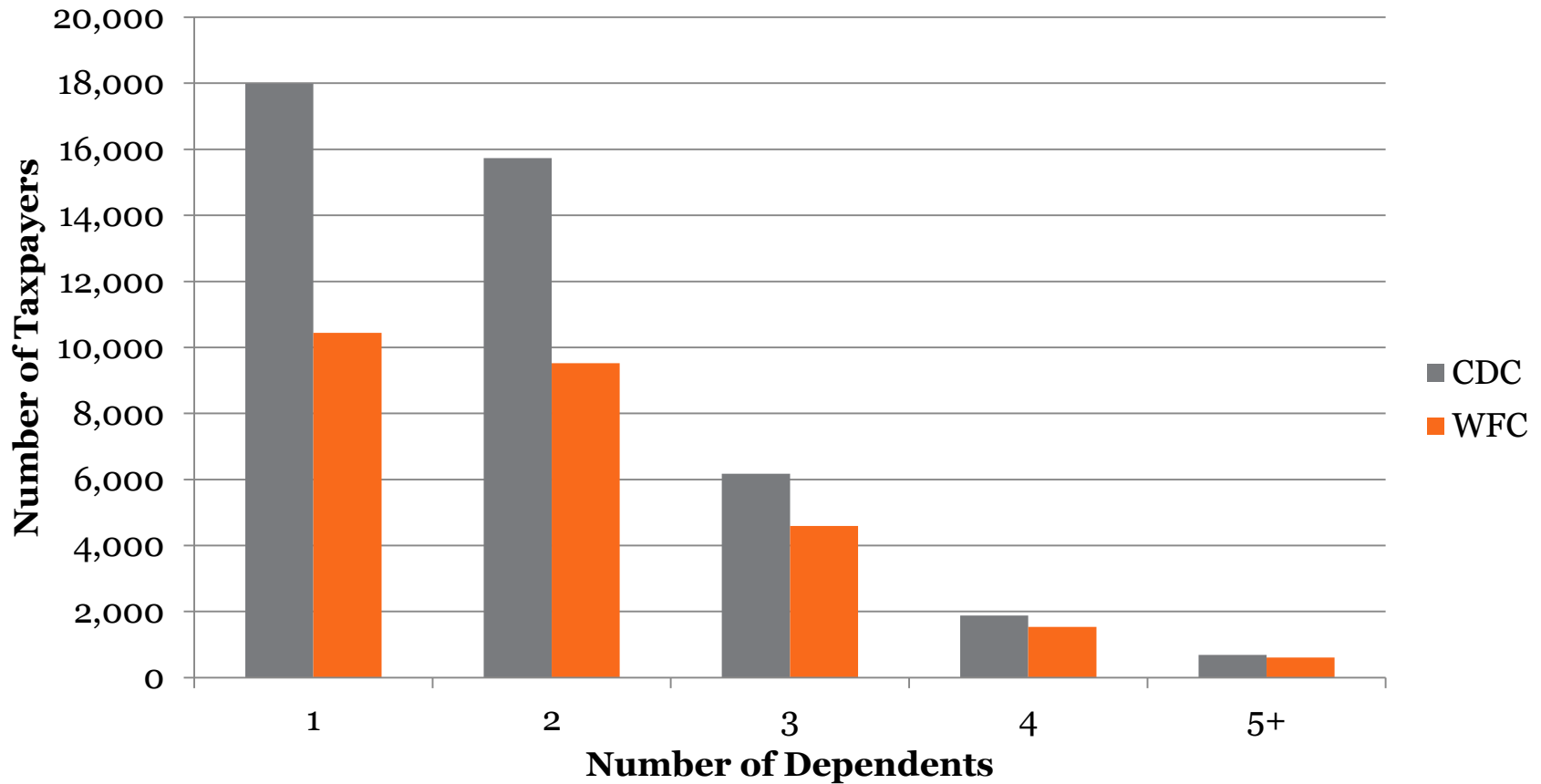
Average CDC & WFC Tax Credit



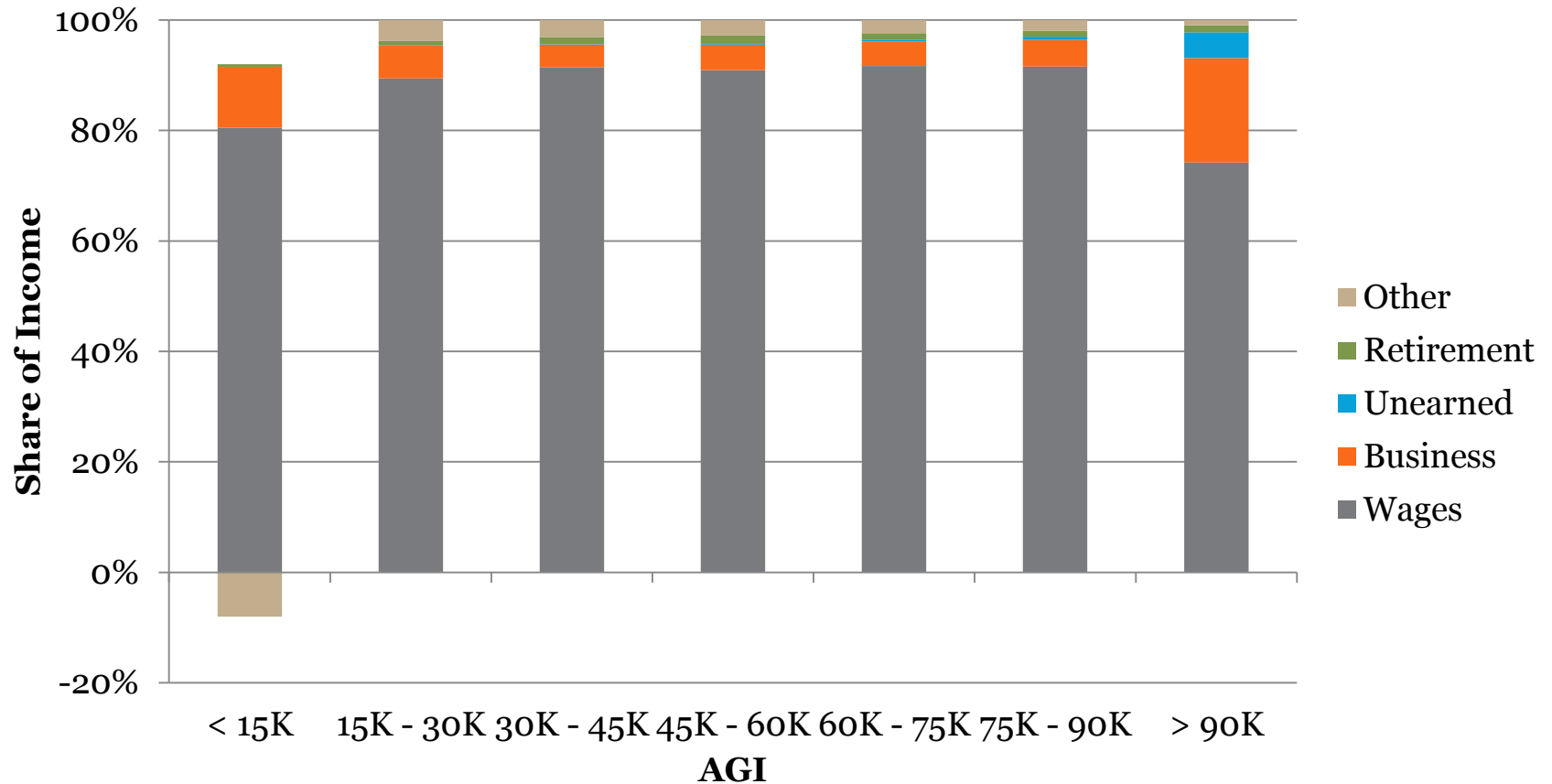
CDC & WFC Claimants by Age



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