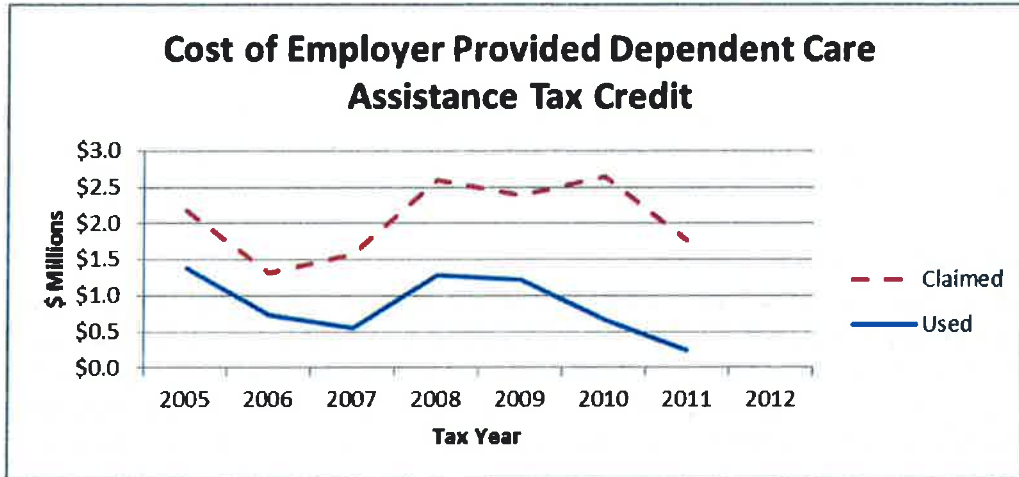


Policy Analysis

See the end of the section (following the tax credit for Contributions to the Office of Child Care) for a complete analysis of this tax credit.

Other Issues

Administrative costs include the requirement that employers submit an application for certification to the Office of Child Care in the Department of Education each year they wish to claim the credit.

There appear to be no other states that offer this kind of tax credit.

Contributions to the Office of Child Care

ORS 315.213	Year Enacted:	2001	Transferable:	No
	Length:	1	Means Tested:	No
	Refundable:	No	Carryfoward:	4-years
TER 1.425	Kind of cap:	Program	Inflation Adjusted:	No

Policy Purpose

Bill documentation for the implementing legislation (2001 HB 2676) states that the tax credit is for "...contributions to the Child Care Division[4]...for the purpose of promoting child care..." The implementing bill identified criteria for the Child Care Division to use when identifying eligible child care providers and determining their allocation amounts.

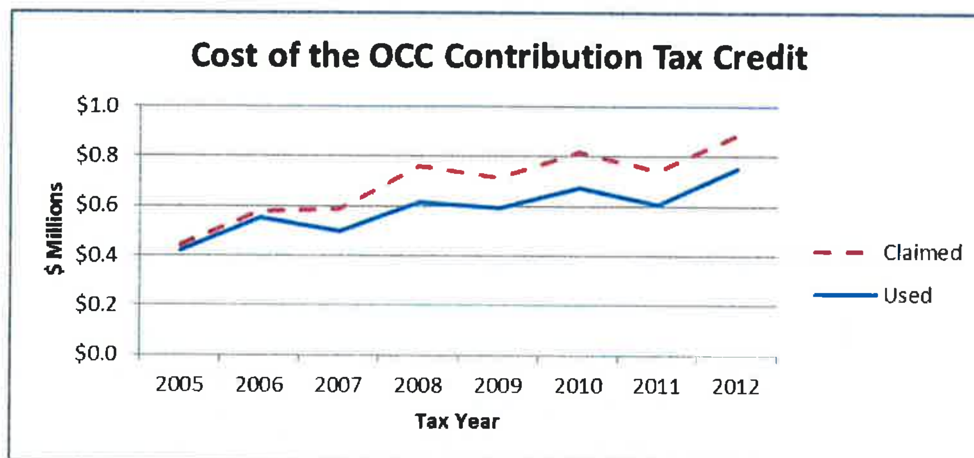
[4] The name was changed to the Office of Child Care by the 2013 Legislature and moved from the Employment Department to the Department of Education.

Discussed at the same time was a proposed corporate child care tax credit modeled after the low-income housing tax credit. Goals cited were to reduce costs to parents, increase provider revenue, and improve quality of care for children of low to moderate income parents.

Description and Revenue Impact

Individuals or businesses that make contributions to the Office of Child Care (OCC) of the Oregon Department of Education are allowed a credit against personal or corporate taxes. The credit is equal to 75 percent of the contribution amount and there is a program cap of $500,000 in tax credits per year. If a charitable contribution deduction is taken at the federal level, only the credit amount needs to be added back to Oregon taxable income. The OCC and selected community agencies distribute the money according to rules established by the Early Learning Council. A selected community agency is a nonprofit agency that provides services related to child care, children and families, community development, or similar services and is eligible to receive tax deductible contributions.

As shown in the chart below, use of this tax credit has gradually grown from $0.4 million in 2005 to just under $0.8 million in 2012. The reason the impact can exceed the annual program cap of $0.5 million is due to carryforwards. Unused tax credits from any one tax year may be carried forward and used in subsequent tax years for up to four years. This trend is reflected in the graph since the difference between the claimed and used amounts has grown over time. In recent years, 98 percent of the revenue impact has been from full-year filers.



Other Issues

The administrative costs of this tax credit are primarily incurred by the OCC as they accept donations and certify tax credits. The DOR and taxpayers have the customary marginal costs of processing, auditing, and record keeping, respectively.

There appear to be no other states that offer a similar tax credit.

Policy Analysis (for all four tax credits)

There is an extensive amount of research that exists on various aspects of child care. The research ranges from the value of early education and how it may affect student performance throughout the school years, to the economic impacts of enabling parents to work. For many years the federal and state governments have offered a variety of subsidies that consist of both direct and indirect spending. Because the purposes of the four tax credits are so closely related, this analysis focuses on the impact of all four tax credit programs collectively.

One key issue that receives much attention is the cost of child care. In fact, the Oregon Secretary of State released a report in December, 2014 that highlights, in part, the difficulties Oregonians have in paying for child care. For context, both the U.S. Department of Health and Human Services and Oregon have adopted an affordability benchmark for child care that is 10 percent of income. A 2013 report by the National Association of Child Care Resources and Referral Agencies found that a married couple paid 19 percent of their income and a single mother paid 62 percent of her income for infant care in 2012.[5] The corresponding figures for care of a four-year-old were 14 percent and 47 percent.

The economic impact of the child care industry can be viewed as having three different components: the longer-term investment effects of the children benefitting from these services, when high quality, learning-centered care is a focus, the employment "enabling" effect for workers utilizing their services, and the direct impact of those businesses providing the service. The discussion here touches on the first two of these topics.

Policies to subsidize the cost of child care have been implemented with a variety of constructs. The broad policy intent has been a combination of two goals: (1) to reduce the cost of employment; and (2) to improve the quality of child care. There has been some research on the role that subsidies play in helping parents choose higher quality child care. Oregon's history, as reflected through the four incentives, provides an example of how policy focus has transformed over the years. The chart below shows the timeline for the adoption of the four tax credits.

1975	1987	1997	2001
Child and Dependent Care	Employer Provided Care	Working Family Child Care	Contributions to the OCC

The original credit was implemented as an offset to employment costs. By the late 1980s, stakeholders remained concerned about access to child care, and an emphasis on the quality of child care had emerged. There was a perceived need to increase access to child care that was

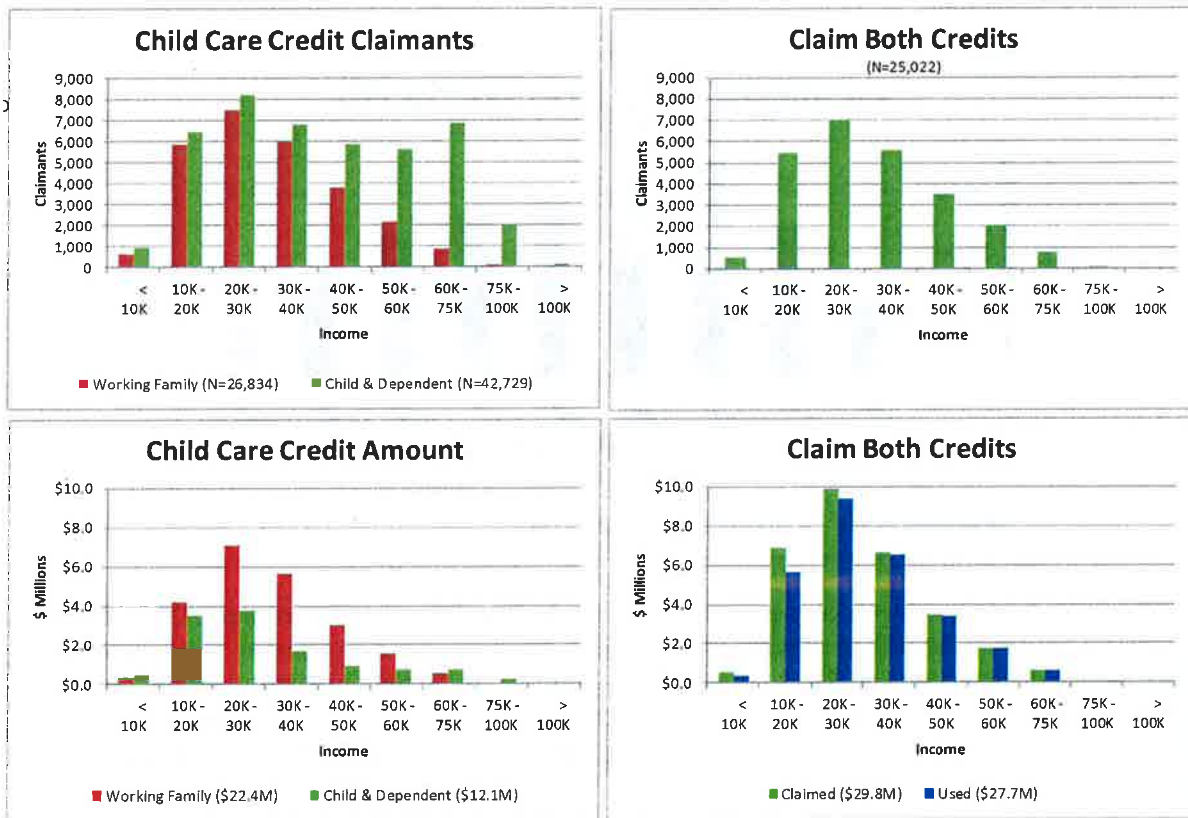
[5] The precise metric used was the average cost of child care in a center divided by the Oregon Median income.

both affordable and of high quality. The Oregon Legislature approached the issue by providing an employer-based incentive that included referral services and on-site care. One of the arguments for this approach is that it could help in recruitment and retention of high-quality employees, particularly in businesses with on-site child care. Some argued it could reduce the cost of direct wages paid by the employer if these were reduced as a result of the extra benefit provided to employees.

By the mid-1990s, the policy focus in the U.S. had shifted to moving people from welfare to work. Child care remained a significant obstacle in this pursuit. As low wage earners moved up the income scale they would lose the direct subsidy child care payments (as well as other direct benefits) so that, in some cases, their disposable income could remain relatively flat, or perhaps decline, despite a higher hourly wage.

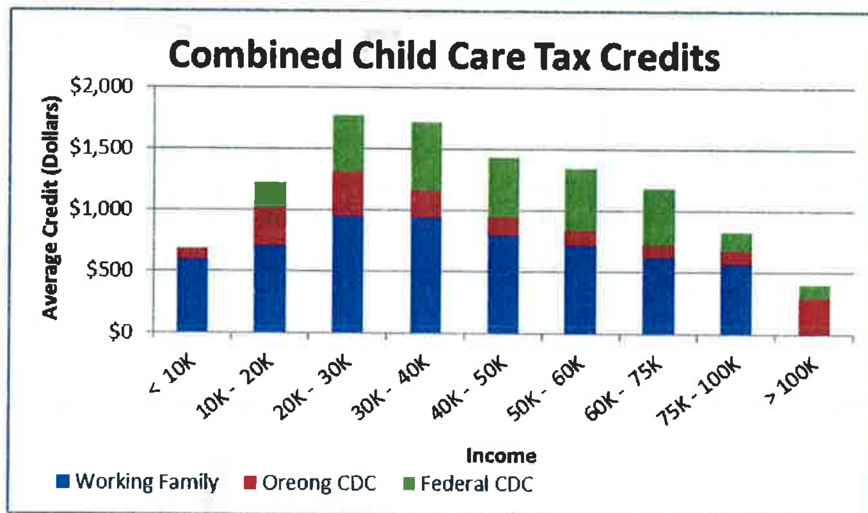
The Legislature responded to this by creating an additional tax credit for child care to be taken by parents. The Working Family Child Care Credit provided a credit for up to 40 percent of child care expenses; it was phased out for taxpayers with incomes above 200 percent of the Federal Poverty Level (FPL). The phase-out range was extended to 250 percent of FPL in 1999 and the credit was made refundable in 2003. There is no limit to the amount of eligible expenses.

The charts below show the use of the Child and Dependent Care (CDC) and Working Family Child Care (WFCC) tax credits for tax year 2012. The top two charts show the number of claimants; the one on the left shows the two credits separately. There were roughly 42,700 full year filers using the CDC and 26,800 filers using the WFCC. The graph reflects that the WFC phases out earlier than does the CDC. The graph on the right contains the roughly 25,000 filers who claimed both tax credits.



The bottom two graphs are analogous to the top two except they show the dollar amounts involved. The left chart shows that from filers with income below $60,000, more credits are issued for WFC. Higher income groups are ineligible for the WFC but are still able to claim some amount of CDC. The graph on the right shows the combined use of the two tax credits for those filers claiming both tax credits.

The following chart shows the average tax credit amounts for both the WFC and CDC, but also includes the federal Child and Dependent Care tax credit. When combined, they provide a more complete picture of the full tax credit subsidy provided to taxpayers with child care costs.



In 1993, the Child Care Division was created within the Employment Department. One primary purpose of the Division was to administer the federal funds received by Oregon pursuant to the Child Care and Development Block Grant Act of 1990. In 2013, the Legislature moved these functions again, this time to the Department of Education as part of the process of creating the Early Learning Division. This move reflects the general policy blending of child care and early education.

Notwithstanding the goal of improving access to higher quality child care, other research focuses on the use of these tax credits to increase employment among low-income Oregonians. Child care expenses can be a significant obstacle for some taxpayers who are deciding whether or not to enter the workforce. The literature refers to a "reservation wage", which is basically the break-even point where going to work will exactly offset the cost of child care. If the income from working is below this wage, then working will actually reduce the parent's income. Their wage would need to be higher than the reservation wage for work to be financially viable. Different kinds of incentives exist that would effectively increase the wage income. The policy goal of increasing employment among low-income individuals can be (partially) addressed by employment subsidies (e.g. the Earned Income Tax Credit) or child care subsidies (e.g. the Working Family Child Care Credit).

These four policies affect different kinds of taxpayers and result in some differentiation across the beneficiaries. The Child & Dependent Care and Working Family Child Care tax credits directly benefit the parents who are paying the child care expenses. In this case the beneficiaries of the tax credit and the spending policy are identical. In contrast, the beneficiaries of the tax credit for contributions to the Office of Child Care (OCC) are taxpayers who make qualifying contributions; they need not be consumers of child care services. However, the revenue raised by the OCC is presumably used to promote quality, affordable child care options. Ultimately, the

beneficiaries of the policy are the families who consume child care services. The remaining credit is structured such that it benefits a different type of entity. Employers who offer qualifying assistance receive the direct benefit of the tax credit. Presumably, however, the families who utilize such services benefit from the assistance in accessing child care services.

In Summary:

Child and Dependent Care	
Advantages	• Leverages federal tax credit and federal dependency rules
Disadvantages	• Amount of limitation on eligible expenses
Potential Modifications	• Increase share of federal credit • Combine with the Working Family Child Care credit

Working Family Child Care	
Advantages	• Refundable
Disadvantages	• No limit on eligible expenses
Potential Modifications	• Change phase-out schedule • Limit eligible expenses • Combine with the Child and Dependent Care credit

Employer Provided Dependent Care Assistance	
Advantages	• Value to employees could exceed cost to employers
Disadvantages	• Potential variation in quality across employers
Potential Modifications	• Focus incentive to on-site child care

Contributions to the Office of Child Care	
Advantages	• Value to state exceeds cost
Disadvantages	• Program cap may not be sufficient to fund need
Potential Modifications	• Change tax credit rate • Change program cap • Change use of funds

Appendix D

Tax Credit Committee Policy Questions

When reviewing the tax credit sunset extension bills and proposed new credits, the Joint Committee on Tax Credits intends to address the follow questions:

- What is the public policy purpose of this credit? Is there an expected timeline for achieving this goal?
- Who (groups of individuals, types of organizations or businesses) directly benefits from this credit? Does this credit target a specific group? If so, is it effectively reaching this group?
- What is expected to happen if this credit fully sunsets? Could adequate results be achieved with a scaled down version of the credit? What would be the effect of reducing the credit by 50%?
- What background information on the effectiveness of this type of credit is available from other states?
- Is use of a tax credit an effective and efficient way to achieve this policy goal? What are the administrative and compliance costs associated with this credit? Would a direct appropriation achieve the goal of this credit more efficiently?
- What other incentives (including state or local subsides, federal tax expenditures or subsidies) are available that attempt to achieve a similar policy goal?
- Could this credit be modified to make it more effective and/or efficient? If so, how?