Financial Independence

Prior to the 1980s, the focus of public policy with respect to poverty was on supporting income and consumption. During the 1980s the focus of research shifted toward a better understanding of its root causes. One result of this shift was to incorporate policies that supported savings and investment. By the early 1990s, asset-based policies were beginning to gain attention as a possible long-term solution to poverty. Income transfers were still deemed necessary, but were considered a short-term solution. The concept of what we now know as Individual Development Accounts (IDAs) began to emerge. These are programs where low-income individuals participate in a financial education program to learn about saving and investing. They are encouraged to save/invest their own money by the possibility of receiving matching funds.

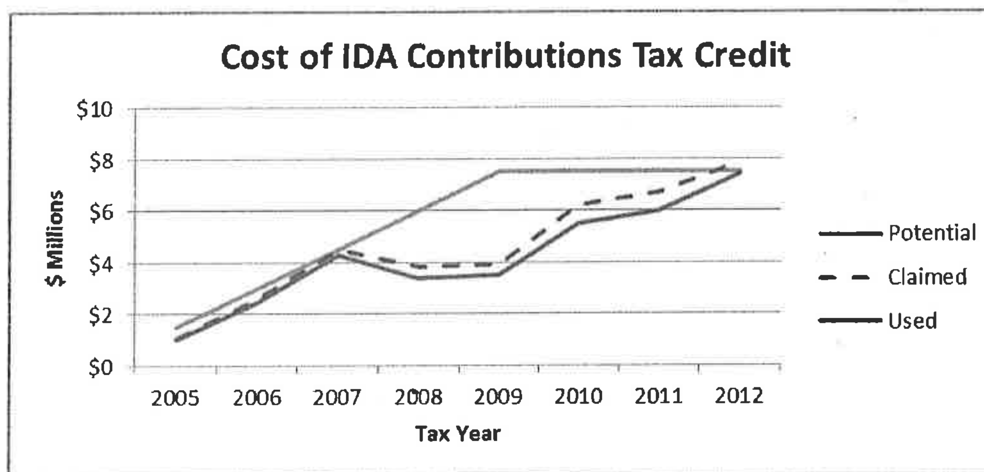
IDAs were becoming considered a valuable policy tool to help individuals move themselves and their families out of poverty. In 1993, Iowa was the first state to enact legislation that established IDAs in law. According to the Corporation for Enterprise Development, 40 states have created state IDA programs either in law or by policy. One challenge, however, has been to guarantee state appropriations for the programs. In fiscal year 2012, only 16 of the states had gathered funding for their program. Oregon is one state that has chosen to fund IDA programs by offering a tax credit to donors. Because these donations are made to a non-profit, the donations are likely to be deductible as a charitable gift. The state tax credit, however, provides a greater incentive.

The table below shows the two tax credits discussed in this section. The only direct spending program that appears to be related to these tax credits actually provides for their administrative support. This section discusses the two tax credit programs related to IDA accounts. The first and primary tax credit is the credit for IDA account donations. These donations are collected by Neighborhood Partnerships, the non-profit entity that is the managing entity for the IDA Initiative. They collect and manage funds, collect data, and provide a supervisory role to the individual initiative partners. The second tax credit reviewed here is for qualified withdrawals from an IDA account. IDA account holders are allowed a tax credit of up to $2,000 for funds that are withdrawn to pay the closing costs on the purchase of a primary residence.

Financial Independence	2013-15 Legislatively Approved Budget ($M)	
	GF	OF
Tax Credit Programs		
IDA Account Contributions	$13.7	
IDA Account Withdrawals	$0.3	
Direct Spending Programs		
Safety Net / IDA Administrative support	< $0.1	

computing federal taxable income. The Housing and Community Services Department maintains a limit of $10 million on the total of all credit eligible contributions made each year.

The graph below shows the use of the tax credit on tax returns between 2005 and 2012. (Tax year 2012 is for personal income tax filers only.) The green line shows the potential that could have been claimed had the program cap been reached. Aside from the recession years of 2008 and 2009, the amount claimed for this tax credit has consistently grown during this time period from $1.0 million to $7.9 million. The average annual growth rate was 33 percent and the usage rate was 92 percent. While the data are for both personal and corporate income tax filers, very few corporations have claimed the tax credit in any given year.

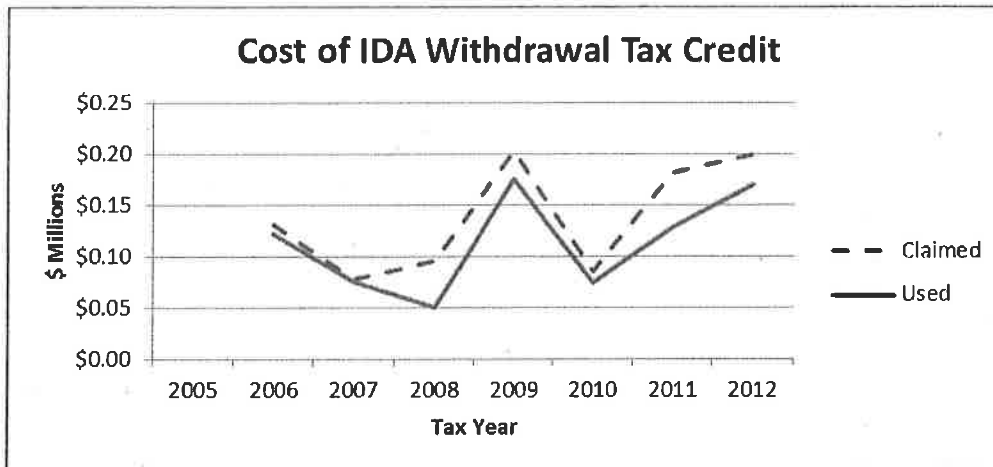


Policy Analysis

Because the policy objectives of the two tax credits included in this section are so closely related, the policy analysis is provided once at the end of this section, following the tax credit for Individual Development Account withdrawals.

Other Issues

A few other states have implemented a tax credit to fund their IDA program. They are Arizona, Indiana, Maine, and South Carolina. The key characteristics of their tax credit programs are summarized below.



Other Issues

It appears that no other state offers this kind of tax credit.

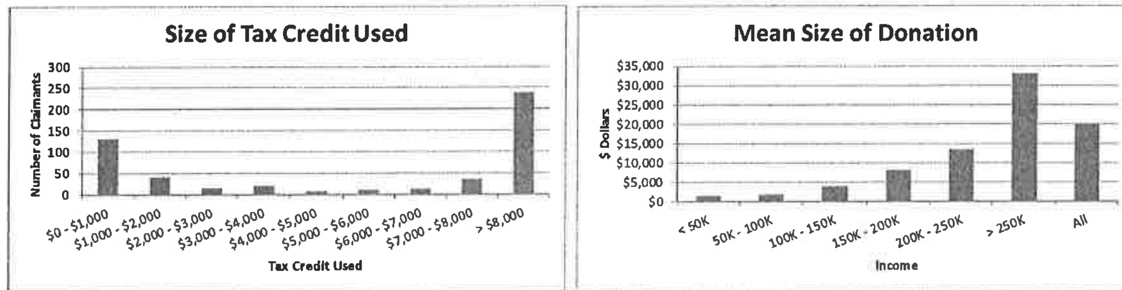
Policy Analysis (for both tax credits)

This tax credit program is another example of where there are two distinct groups of beneficiaries – those who benefit directly by using the tax credit to reduce their tax liability and IDA program participants who benefit from saving, and later, upon graduating, having their savings matched. The Oregon program was created in 1999 and has grown consistently over time. One key aspect to the program is that, while not in statute, the Housing and Community Services Department has maintained a limit on the amount of annual donations eligible for a tax credit. The limit was $4 million for 2006, $6 million for 2007, and $8 million for 2008. The limit increased to $10 million in 2009 where it remains today.

In general these programs are still relatively new but there has been some independent research conducted on their impacts. Some of that literature is summarized here. First, results of a report by Portland State University (PSU) are described. Since 2007, PSU has worked with Neighborhood Partnerships to report on program performances and outcomes. The most recent report covers accounts opened between January 2008 and December 2013. For context, statute defines eligible account holders. They must be an Oregon resident, at least 12 years old, a member of a lower income household, and have an established individual development account with a fiduciary organization selected by the Housing and Community Services Department. A lower income household is one whose income is no more than 80 percent of the median household income for the area or 200 percent of poverty level.

Program participants receive financial education, financial counseling, and training crafted to their specific goals. Once their specific goals for the program have been met, they are considered

The next two charts show the distribution of credits claimed and the average size of donations by income category. The chart on the left shows that nearly 250 taxpayers claimed a tax credit of at least $8,000 in 2012. The second largest group is taxpayers who claimed a tax credit of less than $1,000; there were roughly 130 such taxpayers. The chart on the right shows that the average donation grew with income in 2012, which is not unexpected. Filers with at least $250,000 of income made an average donation of $33,000. This translated into an average tax credit of $24,750. Overall, the average donation was about $20,000 (a tax credit of $15,000).



In addition to the two tax credits discussed above, program recipients benefit from a number of tax expenditures to maximize their incentive and enhance their return on investment. There is an exclusion and subtraction that provides that contributions to and earnings from IDAs are not taxed by Oregon if used for approved purposes. The example provided below highlights the various aspects of preferential tax treatment within the IDA program.

1. Susan donates $100,000 to Neighborhood Partnerships for use as IDA matching funds. She gets an Oregon $75,000 personal income tax credit.
2. Carl has an IDA account to which he has deposits $1,000. He is allowed a personal income tax subtraction of $1,000.
3. Carl graduates from an IDA program and earns $5 interest and receives matching funds of $1,000. His account totals now $2,005. Neither the interest nor the matching funds are taxed by Oregon or the IRS while they accumulate in his account.
4. Carl uses the $2,005 to help buy a home. The $1,000 in matching funds is considered a gift and is therefore not taxable by the federal government or Oregon. Technically, the interest is taxable at the federal level but the amounts are often not large enough to trigger reporting requirements. He is also allowed an Oregon tax credit of $2,000 because he used the funds to purchase a home.

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?