Tax Credits for Low Income Families, Rep. Alissa Keny-Guyer, 3/9/15

WFC = Working Family Credit
CDC = Child and Dependent Credit
EITC = Earned Income Tax Credit

Assumptions & Values:

TANF (equivalent to 37% FPL), Head Start (100% FLP), OHP (138% FPL), WIC (185% FPL), SNAP (150/185%) promote family stability and children's well-being, whether or not the parents are in the workforce yet. While we are restructuring TANF to help parents to enter or progress in the workforce, *ERDC and tax credits specifically target low-income families in the workforce* while they are taking care of a child or dependent.

Research by Duncan, Magnnuson, Kalil, and Murnane (see report in OLIS, posted 3/9/15) has shown that:

1) families with children 0-5 experience a higher rate of poverty than families with school age children;

2) high poverty has negative impacts on school performance and many other life long indicators;

3) the biggest "Return on Investment" of financial and programmatic support occurs for children 0-5.

Families with children 0-2 have even higher childcare costs due to the higher provider ratio required (see report by Bobbie Weber posted in OLIS 3/9/15) and less access; note the difference between availability of Head Start (66%) and Early Head Start (4%).

Some families prefer to care for young children at home due to logistical, financial, cultural, or family considerations. There may be no appropriate childcare nearby. ERDC is only available to a small minority of families, and tax credits don't cover the cost of childcare. Two infants and toddlers in childcare plus transportation to a job can easily exceed minimum wage.

Staying at home with young children, either out of economic hardship or choice, reduces household income. The State should help lower-income families have more choice in whether to stay or home or return to work when their children are very young, especially 0-2, by increasing EITC. An Oregon EITC of roughly 12% erases the state income tax for families at minimum wage. We should not be taxing these families.

Tax Credit policy recommendations discussed at Child Care Tax Credit Workgroup meeting, 3/6/15:

1. Streamline tax credits; reduce WFC financial burden for Dept of Revenue, Dept of Justice, and low-income families. Peg state credits to federal credits.

- Eliminate WFC and divide those funds between CDC and EITC. (If not eliminated, pare it down by capping expenses, which is where the audits show more questions, and limit to 0-5.)

- Plough $500,000 Dept of Revenue costs back into tax credits and into marketing campaign to promote filing for federal tax credits.

2. Shift CDC from higher income families to lower income families.

- Change the CDC income eligibility criteria from Federal Taxable Income (FTI) to either AGI (Adjusted Gross Income) or preferably FPL (Federal Poverty Line), and tie off the tax credits at 250% of FPL, to align with other subsidy programs and to allow it to increase with inflation

- Make CDC refundable.

3. Enable low-income working families to care for their dependent at home rather than go into institutional care when it makes more sense due to finances, logistics, or values, or will help parents offset childcare costs.

- Increase EITC for families with children 0-5, and even a higher rate for 0-3;

- Raise the CDC cap on expenses and/or increase the percentage of expenses credited for targeted groups. Decide on how much to increase the credit for various groups: for incapacitated elders, for children under 13 (as currently allowed), children under 11 (to cover elementary age children), children under 6 (0-5), and children with disabilities.

Questions:

How many children of each age WFC?

How many "dependents" of each category (incapacitated, children at various ages, and children with disabilities) are in each category?

Next workgroup meeting: March 12, 1pm, rm 470; RSVP to Rep. Keny-Guyer, rep.alissakenyguyer@state.or.us, 503-986-1446.