Tax Credit Recommendations, Rep. Alissa Keny-Guyer, 4/13/15

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

Tax credits to help low income families care for *young children*:

1. Increase **Office of Child Care tax** credits to $5 mil/biennium, as per SB 212, to increase funds for education and other incentives for child care providers. $5 mil in credits actually brings in $6.67 million to the state for childcare.

2. Tie off the **WFCC** to streamline tax credits; fold WFCC into the CDC and rename it the **WORKING FAMILY CDC**. Tying the state credits to federal credits should reduce the financial burden for Dept of Revenue, which spends $500k/biennium on WFCC audits.

3. Change the **CDC** income eligibility criteria from Federal Taxable Income (FTI) to Federal Poverty Line (FPL), to more easily determine and align what families are getting from all state and federal sources, and to increase credit with inflation.

4. Shift CDC from higher income families to lower income families by making the CDC refundable, while allowing a slow phase out to 300% FPL. The gradual step up, plateau, and step down follows the EITC "umbrella" pattern.

5. Increase the CDC credit to families with younger children, since child care costs more for infants and toddlers due to mandated provider/child ratio (see Bobbie Weber report posted in OLIS 3/9/15).

6. Raise the caps on allowable expenses to $12,000/yr for one dependent and $24,000/yr for two or more. This aligns with the 75th percentile in childcare costs for toddlers (Bobbie Weber report). It's more than the current $3k/6k CDC credit, and less than the unlimited WFCC credit.

7. Enable low-income families more options in caring for young children at home by increasing EITC for families with children aged 0-1 to 14%. Tie this off in 4 years to align with the overall EITC sunset date. The long-term goal at the next sunset: increase EITC for 0-1 to 16%, for 1-2 to 14%, and 3-5 to 12%.

Tax credits that help low income families care for *people with disabilities*:

1. Enable low-income working families to care for adult dependents at home rather than go into institutional care: increase the credit and capped expenses for caring for an incapacitated adult, above what the current CDC provides.

2. Means test the "Adults with Severe Disability" and "Children with Severe Disability" by capping the personal exemption at $100,000/household.

3. Tie off credits that are rarely used (Loss of limbs; Elderly/Disabled; Cost in Lieu of Nursing Home) or that mostly benefit high-income earners (Long Term Care Insurance Premiums).

4. Start a new tax credit (25% of wages) for employers who hire at-risk youth at least 200 hours per year, as per Rep. John Davis's proposal.

For all tax credits for low income families:

Promote filing for tax credits through DHS offices and tax accountants. This is especially important in bringing more federal dollars into Oregon through the federal CDC and EITC.

Assumptions:

Research by Duncan, et al (see report in OLIS, posted 3/9/15) shows that:

- Families with children 0-5 experience a higher rate of poverty than families with school age children;
- High poverty has negative impacts on school performance and many other life long indicators;
- The biggest "Return on Investment" of financial and programmatic support occurs for children 0-5.

Support for low-income families:

- TANF (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.
- ERDC and tax credits specifically target low-income families in the workforce while they are taking care of a child or dependent.

Childcare constraints:

- Families with infants and toddlers have the highest childcare costs and the least access; Head Start is available to 66% of eligible 3-4 year olds and Early Head Start is only available to 4% of eligible 0-3 year olds.
- 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.
- Staying at home with young children, either out of economic hardship or choice, reduces household income. Oregon should help low-income families

have more choice in staying home or working when their children are very young by increasing EITC, as recommended by Duncan et al.