WORKING DRAFT

House Committee on Human Services and Housing Tax Credit Analysis

CDC refers to the Child and Dependent Care tax credit
WFC refers to the Working Family Child Care tax credit
EIC refers to the Earned Income tax credit

Q1. What are the similarities and differences between the CDC and WFC?

Tax Credit Calculation

CDC

Percentage up to 30% of qualified expenses;
Expenses limited to $3,000 if one dependent or $6,000 if two+ dependents or the earned income of the taxpayer or spouse;
Phased-out by $45,000 of federal taxable income, which is roughly $85,000 of AGI

WFC

Percentage up to 40% of qualified expenses;
Expenses are not limited;
Phased-out by 250% of FPL, which is roughly $50,000 AGI for a family of 3

Qualifying Person

CDC

Child < 13; or
Spouse unable to care for self; or
Other dependent unable to care for self (the taxpayer is required to obtain a medical letter from a doctor)

WFC

A dependent as per IRC 152 (child < 19 or a student < 24); and
A (Child < 13; or
Child with a disability as per 316.099)

Qualified Expenses

CDC

Child and dependent care expenses incurred so the taxpayer can work or look for work;
A spouse is considered as working during any month s/he is a full-time student or is unable to care for him/herself;

WFC

Expenses incurred to the taxpayer may work, look for work, or attend school full-time or part-time;
Excludes care provided by the child's parent or guardian, unless provided in a certified or registered child care facility;

Child care costs must be incurred by the claimant;

Child care expenses include amount excluded income under IRC 129 and IRC 125 (these are pre-tax dollars);
Child care expenses does not include K-12 costs or extra-curriculars, government aid, foregone revenue, transactions not at arms-length or without economic substance

Qualifying Taxpayer

CDC

Must have earned income such as wages, salaries, tips, or net earnings from self-employment;
No direct minimum earned income requirement but eligible expenses cannot exceed earned income
Only taxable income but may include nontaxable combat pay

WFC

Earned income as per IRC 32 of at least \$8,700 (in 2015);
Must be an Oregon resident or have Oregon sourced income
Unearned income of no more than \$3,400 (in 2015);
Can claim if spouse is disabled

Q2. Who is allowed to claim only the CDC or WFC?

Taxpayers who may claim the WFC but not the CDC

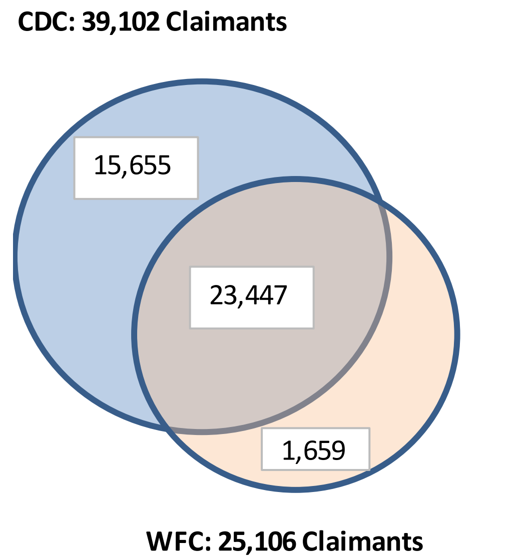
1. Individuals who attend school full-time or part time but who are neither working nor looking for work; ORS more general (less restrictive) than IRC
2. Taxpayers who use pre-tax dollars to pay for child care
3. Eligible individuals whose spouse is at home but is disabled (difference in definition of disability)
4. Individuals who are not required to file a federal tax return

Taxpayers who may claim the CDC but not the WFC

1. Individuals above the WFC eligible income level but have less than \$45,000 of federal taxable income
2. Taxpayers whose earned income is below the WFC minimum
3. Taxpayers whose unearned income is above the WFC maximum
4. Cases where the qualifying individual is over age 18 and disabled

Consumer Child Care Tax Credits

Tax Year 2012, Full-Year Filers



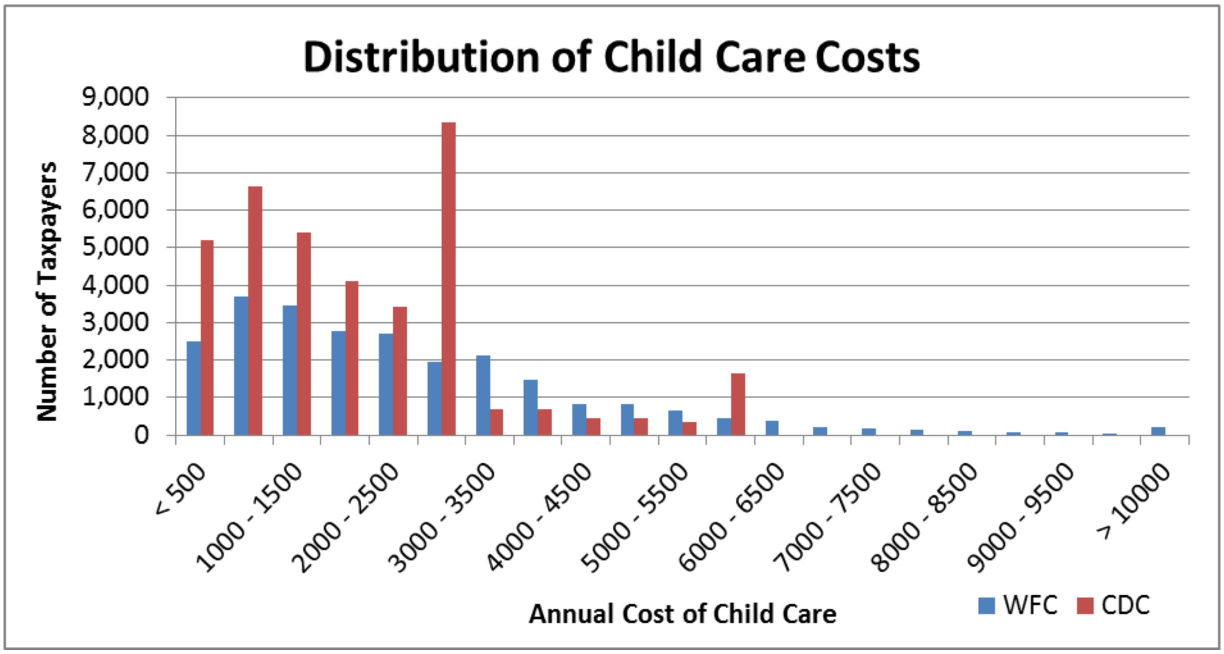
Group	Description	Explanation	Number of Returns
A	WFC Only		1.659
B	FTI > $45,000	Ineligible	17
C	Pre-tax benefits > limits	Ineligible	145
D	WFC expenses < Pre-tax benefits	Ineligible	174
E	Oregon tax zero	Unable to use	341
F	Federal tax zero	Unable to use federal	746
G	Unexplained		236

1. Group A: in 2012 there were 1,659 full-year filers who claimed the WFC but not the CDC
2. Group B: 17 of these taxpayers had a federal taxable income greater than the allowed maximum, so they were ineligible to claim the CDC
3. Group C: 145 taxpayers received pre-tax child care benefits in excess of the $3,000/$6,000 limit, which effectively reduces the amount of eligible expenses to zero
4. Group D: 174 taxpayers received pre-tax child care benefits below the $3,000/$6,000 limits but more than their estimated expenses from the WFC. If all expenses are paid with pre-tax dollars, can the CDC be used?
5. Group E: 341 taxpayers had zero tax liability without claiming the CDC. Perhaps they didn't claim it because it would have no effect on their net tax.
6. Group F: 746 taxpayers had zero federal tax liability without claiming the federal CDC. Perhaps they didn't claim the Oregon CDC because they didn't claim the federal credit.
7. Group G: 236 taxpayers remain unexplained. Perhaps they are part-time student or taxpayer error.
8. Fewer than 10 used the Federal Form 1040EZ

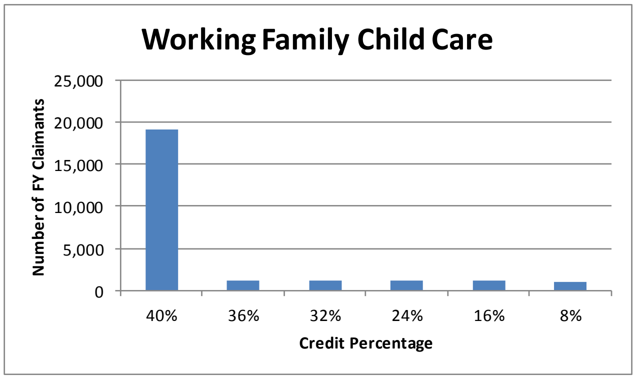
Q3. Why is the CDC so much lower than the WFC?

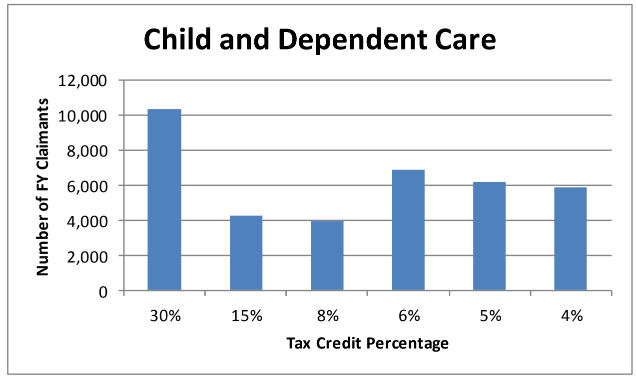
The two bar charts below show that most of the WFC claimants use the 40% credit. The CDC claimants, on the other hand, are much more likely to use a lower percentage credit. The following tables show similar information. For example, assuming a family of 4 has $45,000 of income, they are eligible for a 40% WFC but only a 5% CDC.

- Mean 2012 full-year CDC was $1,965
- Mean 2012 full-year WFC was $2,457
    - Limit WFC to $6,000 expenses: estimated mean of $2,099
- Weighted average credit percentages: 36% for WFC and 13% for CDC; distribution of credit percentages used is shown in the following two graphs



Estimated Child Care Costs	Working Family Child Care Returns	Share	Amount ($M)	Share	Child and Dependent Care Returns	Share	Amount ($M)	Share
< $3,000	17,102	69%	$8.8	41%	33,139	89%	$8.7	84%
$3,000 - $6,000	6,322	25%	$8.9	42%	4,288	11%	$1.7	16%
> $6,000	1,432	6%	$3.5	16%				
Total	24,856	100%	$21.2	100%	37,427	100%	$10.4	100%





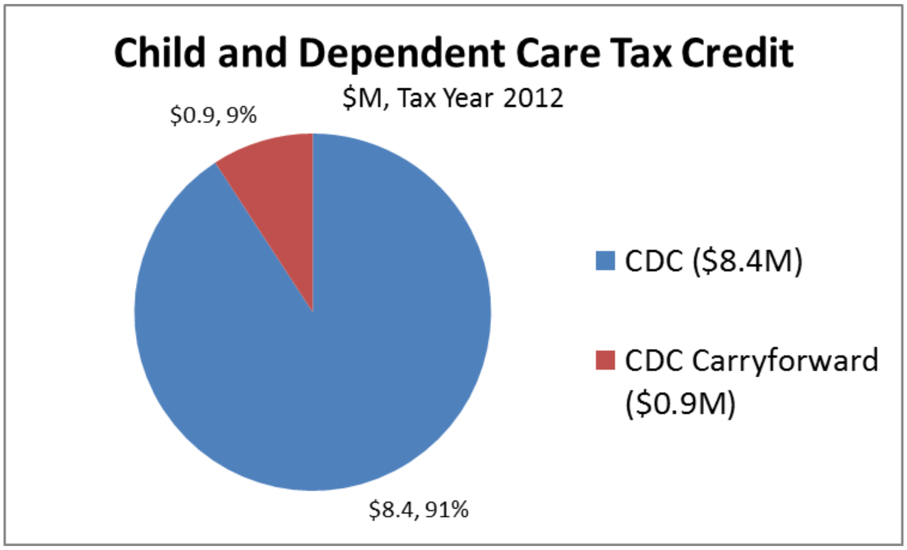
Working Family Child Care Tax Credit*			Child and Dependent Care Tax Credit				
Federal AGI is		Credit %	Federal taxable income is		Federal AGI is roughly*		Credit %
Over:	But not over:		Over:	But not over:	Over:	But not over:	
---	$46,100	40%	---	$5,000	---	$14,500	30%
$46,100	$48,400	36%	$5,000	$10,000	$14,500	$21,500	15%
$48,400	$50,700	32%	$10,000	$15,000	$21,500	$28,000	8%
$50,700	$53,000	24%	$15,000	$25,000	$28,000	$40,000	6%
$53,000	$55,300	16%	$25,000	$35,000	$40,000	$54,000	5%
$55,300	$57,650	8%	$35,000	$45,000	$54,000	$67,000	4%
$57,650	---	None	$45,000	---	$67,000	---	None

* Household size 4

* 2012 IRS Data

Q4. How much of the CDC each year is due to the carryforward?

Taxpayers with insufficient tax liability to use their full tax credit are allowed to use the remaining tax credit in subsequent tax years, for up to five years; this is referred to as a five-year carryforward. The chart below shows the amount of the tax credit claimed that was due to a carryforward from a prior tax year.



Q5. What are the differences between income included in the Federal Poverty Line calculation compared to income reported on tax returns?

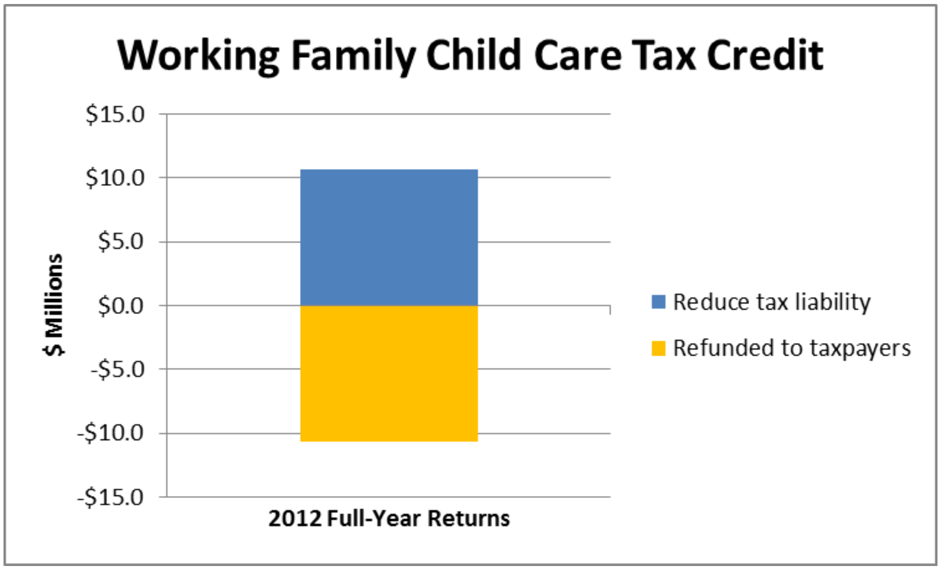
According to the U.S. Census……The official poverty definition uses money income before taxes and does not include capital gains or noncash benefits (such as public housing, Medicaid, and food stamps).

Income Used to Compute Poverty Status (Money Income)

- Includes earnings, unemployment compensation, workers' compensation, Social Security, Supplemental Security Income, public assistance, veterans' payments, survivor benefits, pension or retirement income, interest, dividends, rents, royalties, income from estates, trusts, educational assistance, alimony, child support, assistance from outside the household, and other miscellaneous sources.
- Noncash benefits (such as food stamps and housing subsidies) **do not** count.
- Before taxes
- Excludes capital gains or losses.
- If a person lives with a family, add up the income of all family members. (Non-relatives, such as housemates, do not count.)

Q6. How much of the WFC is refundable?

In tax year 2012, roughly half of the total credit was used to reduce tax liability (potentially to zero) and half was refunded to taxpayers.



Q7. Page 41 of the Tax Credit report states that the ERDC program had funding for 10,000 participants in 2012-13. Is that still figure still accurate?

The figure in the report is taken from an FAQ on the Office of Child Care's website. Contact with the OCC indicates that current funding is available only for roughly 8,500 participants.

Q8. Statute states that the minimum amount of earned income for the WFC is $6,000?

The $6,000 in statute is for tax year 1998. Statute also provides that the threshold be indexed for inflation. It has increased each year and is $8,700 for tax year 2015.

Q9. How much does it cost to expand the EITC?

The table below shows the preliminary cost estimate for 2016 of expanding the EITC by increasing the applicable percentage for families with children of a certain age. The far right column labelled 'Mean' identifies the estimated average credit for taxpayers who have a child under the age of six, at each credit percentage level. The bottom row contains an estimate of the number of taxpayers that fall into each age group.

Expanding the Earned Income Tax Credit

Preliminary 2016 Cost Estimate, $M

	At least one child age:					
EITC %	**0-1**	**0-2**	**0-3**	**0-4**	**0-5**	**Mean**
8%						$229
10%	$2.3	$3.3	$4.2	$5.1	$5.9	$286
12%	$4.6	$6.7	$8.5	$10.2	$11.7	$343
14%	$7.0	$10.0	$12.7	$15.3	$17.6	$400
16%	$9.3	$13.3	$17.0	$20.4	$23.4	$457
18%	$11.6	$16.7	$21.2	$25.5	$29.3	$514
20%	$13.9	$20.0	$25.5	$30.6	$35.1	$571
N=	34,044	48,728	62,109	74,515	85,557	

Q10. To what degree do the child care and disability tax credits overlap?

This table shows the number of filers that claim two of any given child care and disability tax credit combinations. For example, 250 FY filers claimed both the Child & Dependent Care and Severe Disability tax credits.

Intersetion of Child Care and Disability Tax Credits, 2012 FY Filers

	Working Family	Child & Dependent	Severe Disability	Disabled Child	Elderly or Disabled	Loss of Limbs
Working Family	25,155	23,495	157	1,108	< 10	< 10
Child/Dependent		39,282	250	1,582	< 10	< 10
Severe Disability			29,940	1,176	63	276
Disabled Child				23,047	< 10	< 10
Elderly/Disabled					1,270	< 10
Loss of Limbs						395

Q11. What is the overlap between the child Care credits and the EITC?

Working Family Child Care (WFC), Child & Depndent Care (CDC), and Earned Income (EIC) Tax Credits

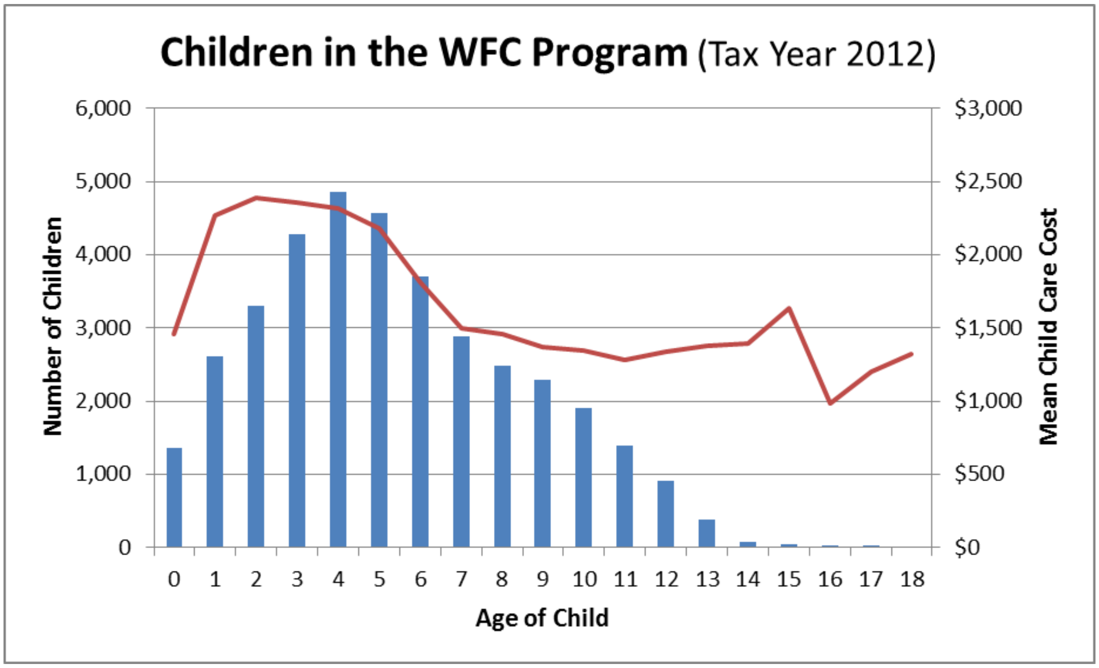
Tax Year 2012, Full-Year Returns

	Number of Returns					Amount Claimed ($M)				
AGI	**WFC**	**CDC**	**WFC & CDC**	**EIC**	**All 3**	**WFC**	**CDC**	**WFC & CDC**	**EIC**	**All 3**
< 15K	2,839	3,323	2,568	124,446	2,381	$1.8	$1.8	$2.9	$10.4	$3.2
15K - 30K	10,439	11,391	9,874	84,358	9,171	$9.3	$5.7	$13.8	$16.9	$14.7
30K - 45K	7,465	8,904	6,960	45,503	5,532	$7.0	$2.1	$8.1	$4.3	$7.2
45K - 60K	3,519	7,577	3,290	3,983	429	$2.7	$1.1	$3.1	$0.1	$0.5
60K - 75K	798	6,148	730	0	0	$0.5	$0.7	$0.6	$0.0	$0.0
75K - 90K	85	1,674	69	0	0	$0.1	$0.2	$0.1	$0.0	$0.0
> 90K	10	265	4	0	0	$0.0	$0.1	$0.0	$0.0	$0.0
Total	25,155	39,282	23,495	258,290	17,513	$21.4	$11.7	$28.6	$31.7	$25.6

	Amount Used ($M)					Average Used ($M)				
AGI	**WFC**	**CDC**	**WFC & CDC**	**EIC**	**All 3**	**WFC**	**CDC**	**WFC & CDC**	**EIC**	**All 3**
< 15K	$1.8	$0.4	$2.0	$10.4	$2.3	$642	$106	$760	$84	$978
15K - 30K	$9.3	$3.7	$12.1	$16.9	$13.1	$895	$324	$1,230	$201	$1,431
30K - 45K	$7.0	$1.8	$7.9	$4.3	$7.1	$933	$205	$1,140	$93	$1,278
45K - 60K	$2.7	$1.0	$3.1	$0.1	$0.5	$774	$135	$931	$26	$1,160
60K - 75K	$0.5	$0.7	$0.6	$0.0	$0.0	$645	$115	$783	$0	$0
75K - 90K	$0.1	$0.2	$0.1	$0.0	$0.0	$632	$122	$770	$0	$0
> 90K	$0.0	$0.1	$0.0	$0.0	$0.0	$473	$196	$360	$0	$0
Total	$21.4	$7.9	$25.7	$31.7	$23.0	$852	$200	$1,095	$123	$1,315

Q12. What are the ages of children in the WFC and associated child care costs?

This chart shows the number of children within the WFC program in 2012 at each age level and the mean reported child care costs at each age level. Roughly 175 are between the ages of 14 and 18. Another 80 have questionable age data.



Q13. What are the distributions of WFC and CDC by FPL?

This table shows the use of these two credits at income levels compared to the Federal Poverty Level.

	Claimants		Total Claimed ($M)		Mean Claimed ($)	
% of FPL	**WFC**	**CDC**	**WFC**	**CDC**	**WFC**	**CDC**
100	5,055	5,677	$3.5	$3.2	$697	$563
200	13,706	14,798	$13.1	$5.9	$958	$400
210	1,187	1,300	$1.2	$0.2	$1,008	$178
220	1,198	1,319	$1.2	$0.2	$971	$159
230	1,153	1,250	$0.9	$0.2	$822	$151
240	1,084	1,248	$0.6	$0.2	$592	$154
250	1,090	1,245	$0.4	$0.2	$379	$140
260	265	1,152	$0.2	$0.2	$570	$140
270	115	1,155	$0.1	$0.2	$657	$143
280	75	1,161	$0.1	$0.2	$668	$138
290	55	1,064	$0.0	$0.1	$702	$138
300	53	1,063	$0.0	$0.1	$539	$125
> 300	119	6,850	$0.1	$0.8	$558	$115
Total	25,155	39,282	$21.4	$11.7	$852	$297

Q14. Is it possible to phase-out the tax credit more smoothly?

Tax Credit A: Household Size 3					
Federal FPL is:		Then 2015 AGI is		Share of eligible expenses allowed	If Eligible Expenses are $10,000 Then the Tax credit is:
Over:	But not over:	Over:	But not over:		
0%	100%	$0	$20,090	50%	$5,000
100%	200%	$20,090	$40,180	45%	$4,500
200%	210%	$40,180	$42,189	36%	$3,600
210%	220%	$42,189	$44,198	32%	$3,200
220%	230%	$44,198	$46,207	24%	$2,400
230%	240%	$46,207	$48,216	16%	$1,600
240%	250%	$48,216	$50,225	8%	$800
250%		$50,225	---	0	$0

If a taxpayer has an AGI of:	$20,050	the credit is:	$5,000
If a taxpayer has an AGI of:	$20,100	the credit is:	$4,500
AGI change:	$50	Credit change:	-$500

Tax Credit A1: Household Size 3					
Federal FPL is:		Then 2015 AGI is		Share of eligible expenses allowed	are $10,000 Then the Tax credit is:
Over:	But not over:	Over:	But not over:		
0%	100%	$0	$20,090	50%	$5,000
100%	110%	$20,090	$22,099	49%	$4,900
110%	120%	$22,099	$24,108	48%	$4,800
120%	130%	$24,108	$26,117	47%	$4,700
130%	140%	$26,117	$28,126	46%	$4,600
140%	150%	$28,126	$30,135	45%	$4,500
150%	160%	$30,135	$32,144	44%	$4,400
160%	170%	$32,144	$34,153	43%	$4,300
170%	180%	$34,153	$36,162	42%	$4,200
180%	190%	$36,162	$38,171	41%	$4,100
190%	200%	$38,171	$40,180	40%	$4,000
200%	210%	$40,180	$42,189	39%	$3,900
210%	220%	$42,189	$44,198	38%	$3,800
220%	230%	$44,198	$46,207	37%	$3,700
230%	240%	$46,207	$48,216	36%	$3,600
240%	250%	$48,216	$50,225	35%	$3,500
250%		$50,225	---	0	$0

If a taxpayer has an AGI of:	$20,050	the credit is:	$5,000
If a taxpayer has an AGI of:	$20,100	the credit is:	$4,900
AGI change:	$50	Credit change:	-$100

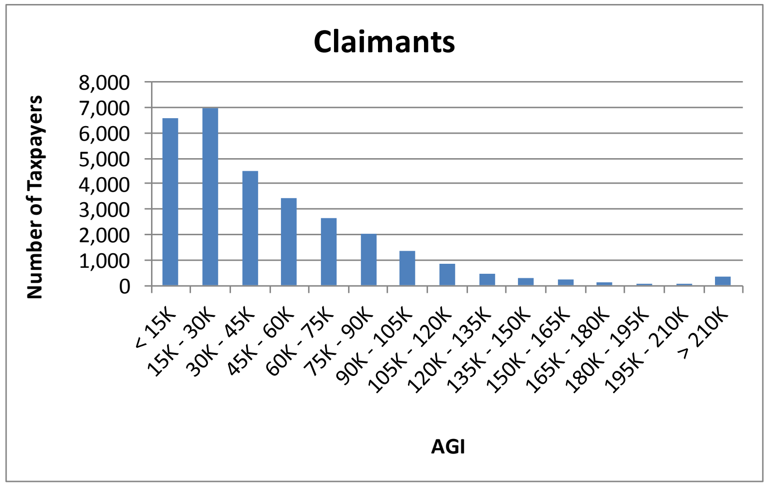
Q15. What about alternative tax credit structures?

Hypothetical Child Care Tax Credit						
Federal FPL is:		Share of eligible expenses allowed, by age of child				If Child is Disabled, then add the following Percentage
		New Expense Cap of $10K/$20K		Current Law Expense Cap of $3K/$6K		
Over:	But not over:	0 - 2	3 - 5	6 - 10	11 - 12	
0%	35%	0%	0%	0%	0%	15%
35%	50%	55%	50%	45%	40%	14%
50%	65%	53%	48%	43%	38%	13%
65%	80%	51%	46%	41%	36%	12%
80%	95%	49%	44%	39%	34%	11%
95%	110%	47%	42%	37%	32%	10%
110%	125%	45%	40%	35%	30%	9%
125%	140%	43%	38%	33%	28%	8%
140%	155%	41%	36%	31%	26%	7%
155%	170%	39%	34%	29%	24%	6%
170%	185%	37%	32%	27%	22%	5%
185%	200%	35%	30%	25%	20%	4%
200%	215%	33%	28%	23%	18%	3%
215%	230%	31%	26%	21%	16%	2%
230%	245%	29%	24%	19%	14%	1%
245%	260%	27%	22%	17%	12%	0%
260%		0%	0%	0%	0%	0%

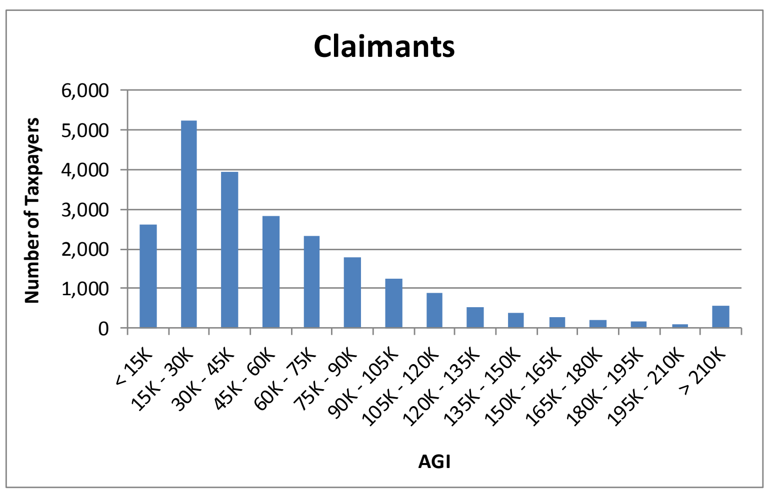
Modified Earned Income Tax Credit			
Age of the youngest child			
0 - 2	3 - 5	6 - 10	11 - 12
12%	11%	10%	9%

Q16. What is the use of the two primary disability tax credits?

	Severe Disability		
AGI	Claimants	Claimed ($M)	Used ($M)
< 15K	6,582	$0.7	$0.5
15K - 30K	6,960	$1.1	$1.0
30K - 45K	4,481	$0.8	$0.8
45K - 60K	3,447	$0.6	$0.6
60K - 75K	2,654	$0.5	$0.5
75K - 90K	2,016	$0.4	$0.4
90K - 105K	1,365	$0.3	$0.3
105K - 120K	839	$0.2	$0.2
120K - 135K	482	$0.1	$0.1
135K - 150K	289	$0.1	$0.1
150K - 165K	214	$0.0	$0.0
165K - 180K	126	$0.0	$0.0
180K - 195K	83	$0.0	$0.0
195K - 210K	71	$0.0	$0.0
> 210K	331	$0.1	$0.1
Total	29,940	$4.8	$4.5



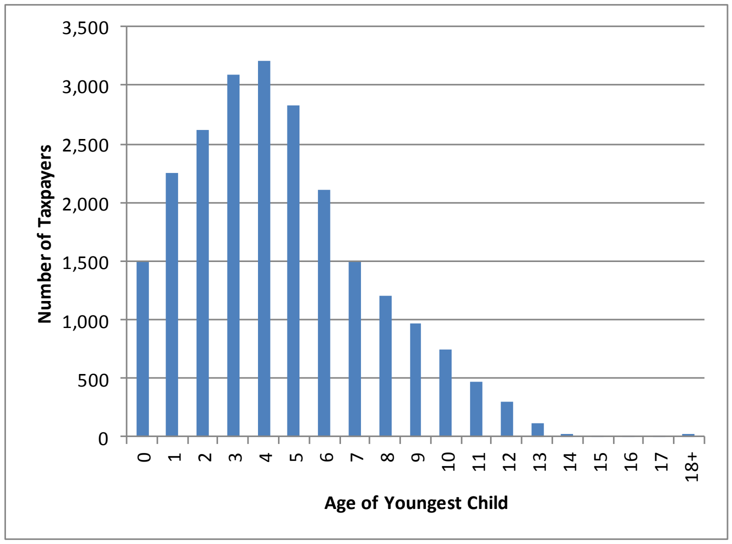
	Disabled Child		
AGI	Claimants	Claimed ($M)	Used ($M)
< 15K	2,624	$0.3	$0.2
15K - 30K	5,226	$1.0	$0.9
30K - 45K	3,941	$0.8	$0.8
45K - 60K	2,833	$0.6	$0.6
60K - 75K	2,328	$0.5	$0.5
75K - 90K	1,783	$0.4	$0.4
90K - 105K	1,251	$0.3	$0.3
105K - 120K	870	$0.2	$0.2
120K - 135K	511	$0.1	$0.1
135K - 150K	386	$0.1	$0.1
150K - 165K	278	$0.1	$0.1
165K - 180K	189	$0.0	$0.0
180K - 195K	152	$0.0	$0.0
195K - 210K	108	$0.0	$0.0
> 210K	567	$0.1	$0.1
Total	23,047	$4.3	$4.1



Q17. What is the use of the CDC by age of the youngest child?

2012 Child and Dependent Care Tax Credit

Age	Number	Claimed ($M)	Used($)
0	1,494	$0.5	$0.4
1	2,258	$0.8	$0.6
2	2,615	$1.0	$0.8
3	3,088	$1.1	$0.9
4	3,206	$1.1	$0.9
5	2,833	$0.9	$0.8
6	2,115	$0.7	$0.5
7	1,496	$0.5	$0.4
8	1,207	$0.3	$0.3
9	966	$0.2	$0.2
10	740	$0.2	$0.2
11	465	$0.1	$0.1
12	306	$0.1	$0.1
13	112	$0.0	$0.0
14	20	$0.0	$0.0
15	10	$0.0	$0.0
16	9	$0.0	$0.0
17	6	$0.0	$0.0
18+	25	$0.0	$0.0
Total	22,971	$7.5	$6.1

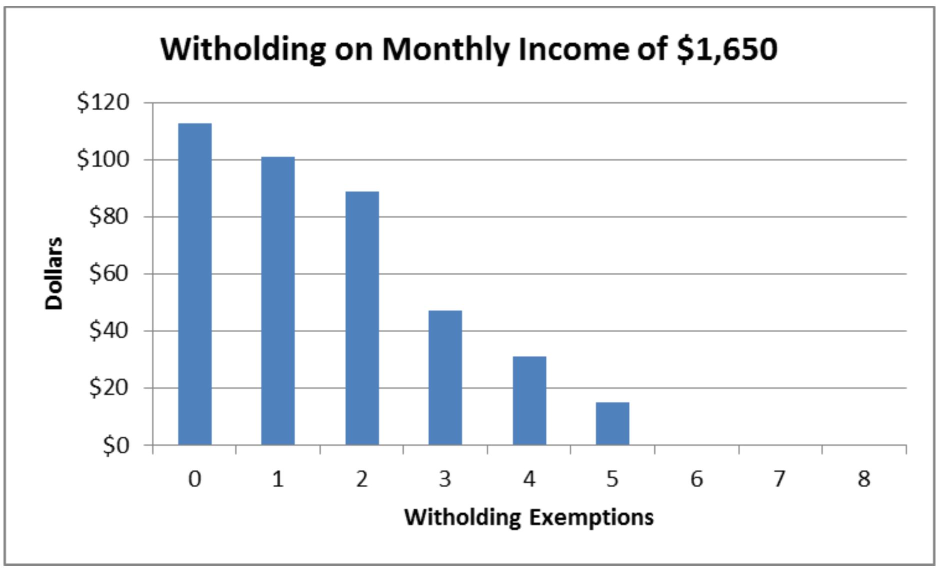


Q18. Can withholding be adjusted to allow the tax credit during the tax year?

The Department of Revenue provides withholding tables and formulas as guidance for taxpayers to have (roughly) the correct amount of income taxes withheld from their paychecks. The basic computations are based on taxpayers using the standard deduction and the personal exemption credit. The chart below shows an example of how much would be withheld for a taxpayer with $20,000 in income. Taxpayers are able to choose the number of withholding exemptions.

Assume annual income of $20,000 (roughly $1,650 per month)

- Gross tax liability of $1,042
- Personal exemption credits (PEC) of $582
- Gross tax less PEC: $1042-$582=$460 (roughly $38 per month)



Policy Directives

1. Support low-income families incurring costs due to child care
2. Focus the support on lower income families
3. Focus the support on families with younger children
4. Mitigate the taxation on families “near” the federal poverty level
5. Minimize administrative costs

Possible Tax Credit Restructure

1. Merge the WFC into the CDC and make it refundable
2. Limit federal connection to eligible expenses
3. Apply an expenses cap that is twice federal limits
4. Include other qualifying person/taxpayer
5. Change the credit percentage
6. Adjust phase-out schedule to be based on a percent of FPL

Revised Oregon Child and Dependent Care Tax Credit

1. Eligible expenses are those identified in IRC § 21, which is the federal CDC.
2. Eligible expenses are capped at $6,000/$12,000 (twice the federal limits) or the earned income of the taxpayer/spouse, whichever is lower
3. Qualifying individuals are those identified in IRC § 21, plus part-time students
4. The credit percentage shall decline from 50% to 8% of eligible expenses as income increases to 250% of the FPL. Two examples are provided below.
5. Any cost savings shall be applied to an increase in the EITC for families with young children. For example, the EITC is increased to 12% for families with at least one child aged 0-2.

Household Size 2					
Federal FPL is:		Then 2015 AGI is		Share of eligible expenses allowed	If Eligible Expenses are $6,000 Then the Tax credit is:
Over:	But not over:	Over:	But not over:		
0%	100%	$0	$15,930	50%	$3,000
100%	200%	$15,930	$31,860	45%	$2,700
200%	210%	$31,860	$33,453	36%	$2,160
210%	220%	$33,453	$35,046	32%	$1,920
220%	230%	$35,046	$36,639	24%	$1,440
230%	240%	$36,639	$38,232	16%	$960
240%	250%	$38,232	$39,825	8%	$480
250%		$39,825	---	0	$0

Household Size 3					
Federal FPL is:		Then 2015 AGI is		Share of eligible expenses allowed	If Eligible Expenses are $10,000 Then the Tax credit is:
Over:	But not over:	Over:	But not over:		
0%	100%	$0	$20,090	50%	$5,000
100%	200%	$20,090	$40,180	45%	$4,500
200%	210%	$40,180	$42,189	36%	$3,600
210%	220%	$42,189	$44,198	32%	$3,200
220%	230%	$44,198	$46,207	24%	$2,400
230%	240%	$46,207	$48,216	16%	$1,600
240%	250%	$48,216	$50,225	8%	$800
250%		$50,225	---	0	$0

Other Questions

How are college students and earned income treated?

Is it possible to make a tax credit refundable for certain taxpayers?

How many taxpayers used pre-tax income to pay for child care and use the tax credits?

Is it possible for someone to get a 100% subsidy for their child care?

What are the complete administrative and compliance costs?