

To: Senate Committee on Finance and Revenue
From: Alicia Temple, Oregon Law Center
Date: March 2, 2018
Re: Dependent Care Tax Credit in HB 4028A

Chair Hass and members of the committee:

On behalf of the Oregon Law Center (OLC) I am writing in support of 4028A and to urge the committee to consider future legislation to continue to fix the Dependent Care Tax Credit.

In 2015, the Legislature merged the Working Families Credit and the Child Dependent Care Credit (HB 2171) to better serve low-income families with children and disabled dependents. The intent of combining these credits was to make both credits *refundable* and ensure all low-income parents have access to an enhanced and simplified dependent child care tax credit.

The Department of Revenue flagged several inconsistencies between state and federal tax law that need to be addressed in order to properly implement the combined tax credit. The Department of Revenue and LRO drafted an amendment to address three key issues in order to correct and maintain the intent of the original 2015 legislation:

1. Clarify Oregon residents who earn out-of-state income, yet file Oregon taxes can still claim the credit.
2. Change applicable date to January 1, 2018 to conform to and correct changes made in SB 162 in 2017.
3. Create equity for students. Married and unmarried students and part-time and full time students are currently treated differently under the law.

Current Status of Students

State law ties the credit to federal law and an imputed income formula. This tie created unintentional inequities for students. The state credit currently applies differently for married and unmarried students and their part-time or full-time status as students.

- Full-time students who are married *can access* the current credit
- Part-time students who are married *cannot access* the credit
- Full-time students who are single *can only access a very limited* credit
- Part-time students who are single *can only access a very limited* credit

The Oregon credit needs to be corrected to ensure that full and part time and married and unmarried students can all claim the credit equally.

4028A overall makes needed changes. The -17 amendment addresses the technical concerns of the Department of Revenue but does not correct the unintentional inequity between students. Higher education is a critical path out of poverty and these gaps in the credit exclude families on that path. This will need future legislation to enable all students who have qualifying expenses to access the credit.