

# Working Family Household and Dependent Care (WFHDC) Credit Overview

Joint Committee on Tax Expenditures

LRO - 6/3/2021



# Overview of Background

- Policy purpose of the credit
- Background on credit development
- Description
- Policy analysis
  - Cost of credit
  - Who is benefitting
  - WFHDC credit and interaction with other income support programs





# Policy Purpose

*“To enable low-income working families to care for young children and disabled dependents by offsetting care costs so that they may be gainfully employed or attending school full-time. The desired effect...is to provide additional tools to help these families climb out of poverty”*  
(Rep. Keny-Guyer, 2015)

- Design policy that encourages or enables people to maintain, return and/or enter workforce (accounting for other government transfer payments)





# Credit Development

- Created in 2015 via combining of two tax credits:
  - 1) Child & Dependent Care
  - 2) Working Family Child Care
- Simplifying process for taxpayers qualifying for both credits
- Extending more benefit to lower income taxpayers through single refundable credit





# Credit Description

- Refundable personal income tax credit
- Benefits low & middle income households with employment related dependent care expenses

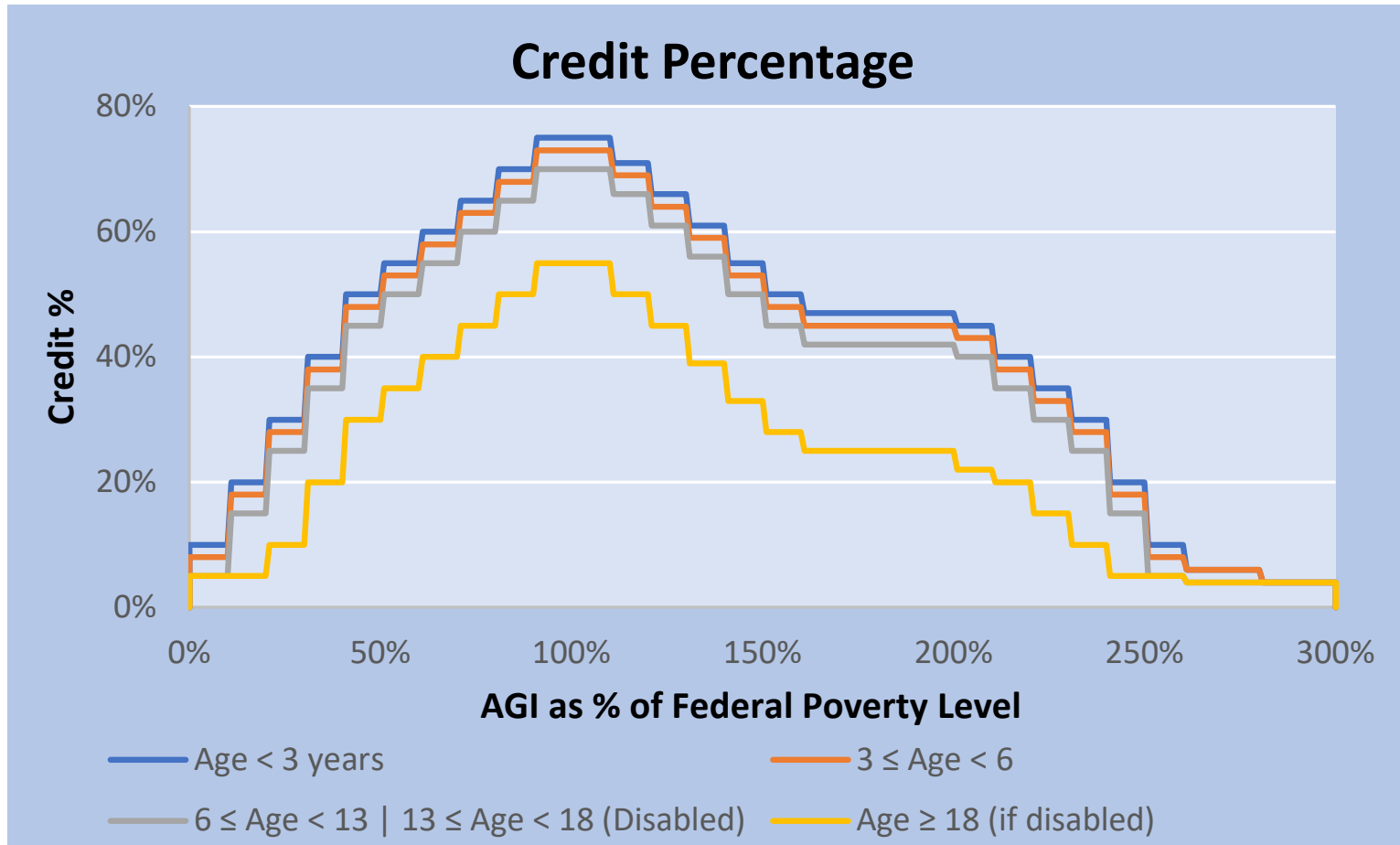
*Credit = Credit % \* Qualified Expenses of Care for a Qualifying Individual*

- Credit % is based on taxpayer's:
  - Adjusted gross income (AGI) as a percentage of federal poverty level (FPL) and,
  - Age of youngest qualifying dependent
- Some connection to federal child and dependent care credit





# Credit Description



TY 2020 AGI Limits	
Household Size	AGI at 300% of FPL
2	\$51,720
3	\$65,160
4	\$78,600
5	\$92,040
6	\$105,480
7	\$118,920
8 or more	\$132,360





# Definitions & Limitations

$$\text{Credit} = \text{Credit \%} * \text{Qualified Expenses of Care for a Qualifying Individual}$$

## Qualifying expenses

- Paid by taxpayer for household services and/or care of qualifying individual
- Allows taxpayer to work, seek work, or attend school
- Annual limit on expenses is least of:
  - Reported earned income taxable by Oregon
  - Lesser amount of earned income earned by either spouse
  - Married students: spouse receives monthly “imputed income” of \$250 (1 qualifying individual) or \$500 (2 qual. indiv.)
  - \$12,000 for 1 qualifying individual
  - \$24,000 for 2 or more qualifying individuals






## Qualifying individual

- Dependent child under the age of 13
- Disable spouse who isn't physically or mentally able to care for themself





# Who Benefits

<b>Working Family Household &amp; Dependent Care   2018 Personal Income Tax Filers</b>				
<b>Income Group of Full-Year Filers</b>	<b>Number of Filers Using Credit</b>	<b>Avg. Revenue Impact of Credit</b>	<b>Revenue Impact (\$ millions)</b>	<b>Percent of Revenue Impact by Income Group</b>
< \$16,100	2,910	\$930	\$2.7	9% 
\$16,100 - \$32,900	8,810	\$1,480	\$13.1	43% 
\$32,900 - \$57,100	10,380	\$1,100	\$11.5	38% 
\$57,100 - \$100,100	5,550	\$590	\$3.3	11% 
> \$100,100	100	\$320	<\$0.1	<1% 
<b>Total Full-Year Filers</b>	<b>27,760</b>	<b>\$1,100</b>	<b>\$30.5</b>	<b>100%</b>







# Policy Analysis

- Other income support programs
  - Means tested transfers: Medicaid, Children's Health Insurance Program (CHIP), Supplement Assistance Nutrition Program (SNAP), Supplementary Security Income (SSI), other income support programs
  - Federal & State tax credits
    - Earned income tax credit, child tax credit, child & dependent care (federal)
- OR Employment Related Day Care (ERDC) program
  - Subsidies to qualifying parents (working with income < 185% of FPL) to offset cost of child care to children age  $\leq 12$
  - Voucher program, parents generally required to pay copay



# Questions?

More detail available in LRO's Tax Credit Report: 2021 Session

<https://www.oregonlegislature.gov/lro/Pages/publications.aspx>