

# Dependents in the Personal Income Tax System

Senate Interim Committee on Finance & Revenue

LRO | 9/28/2023



# Overview of Presentation

- Dependents in the tax system
- What is a dependent?
- Policy considerations
- Number of dependents in Oregon and demographic projections
- Importance / value of dependents in the personal income tax
  - Oregon
  - Federal
- Sources: Unless otherwise noted, underlying data sourced from Dept. of Revenue income tax data





# Personal Income Tax: Dependents

## Personal Income Tax

Definition of  
Income

Tax Brackets  
& Rates

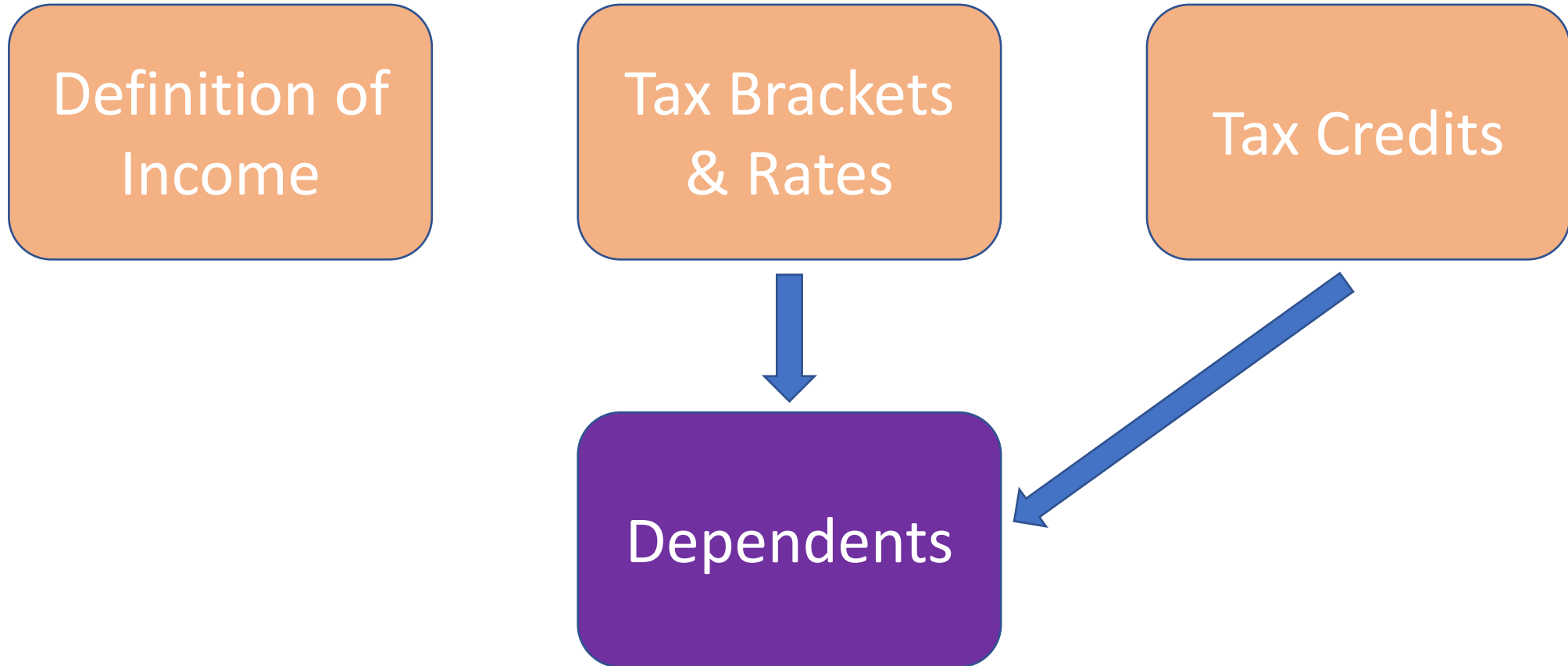
Tax Credits





# Personal Income Tax: Dependents

## Personal Income Tax





# What is a Dependent?

- Oregon uses federal dependent definition
  - Dependent defined in Internal Revenue Code (IRC) section 152
- Two types of dependents
  - Qualifying child
  - Qualifying relative
- Dependents claimed by only one taxpayer





# Dependent: Qualifying Child

Qualification based on meeting four tests:

## 1) Relationship

- Daughter/son, stepchild, foster child, or descendant of any of them
- Brother/sister, half brother/sister, step-sister/brother, or descendant of any

## 2) Age

- Child <19 at end of tax year & younger than taxpayer (<24 if student)
- Child can be any age if permanently & totally disabled

## 3) Residency

- Child required to live with taxpayer more than half the year (exception for temporary absences)

## 4) Support

- Child provided less than half of their own financial support for the year





# Dependent: Qualifying Relative

Cannot be a qualifying child and must meet three following tests (can be any age)

## 1) Household / Relationship

- Live with taxpayer as member of household all year, or
- A specified relative (such as: child/stepchild, foster child, brother/sister, mother/father, niece/nephew, in-law), not required to live with taxpayer

## 2) Support

- Taxpayer must have provided more than half of the person's total support during the calendar year

## 3) Gross Income

- Relative's gross taxable income for year < \$4,400 (tax year 2022 amount, indexed to inflation)



# Policy Considerations





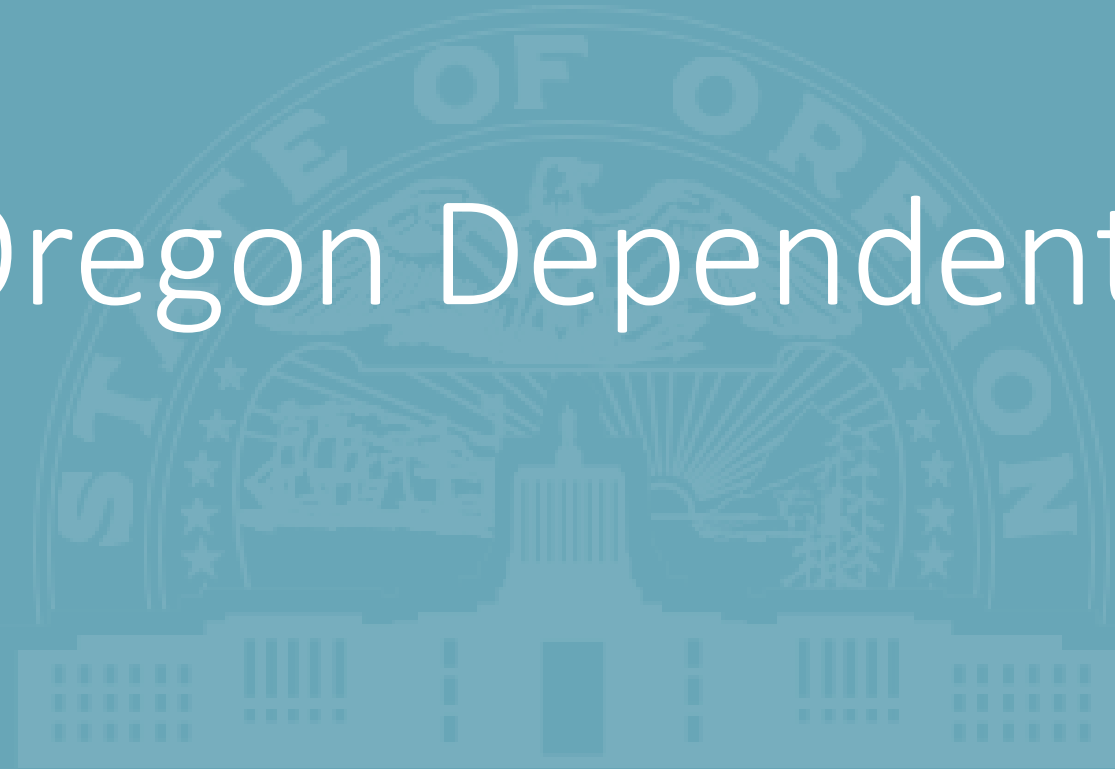


# Policy Considerations

- Structural (tax base)
  - Ability to pay
  - Horizontal equity
- Transfer payments
  - Provide transfer payment through the tax system in-lieu of and/or in addition to direct transfer payment via appropriation
- Secondary & long-term impacts of tax modifications
  - Labor market outcomes
  - Child development, health, education attainment, etc.



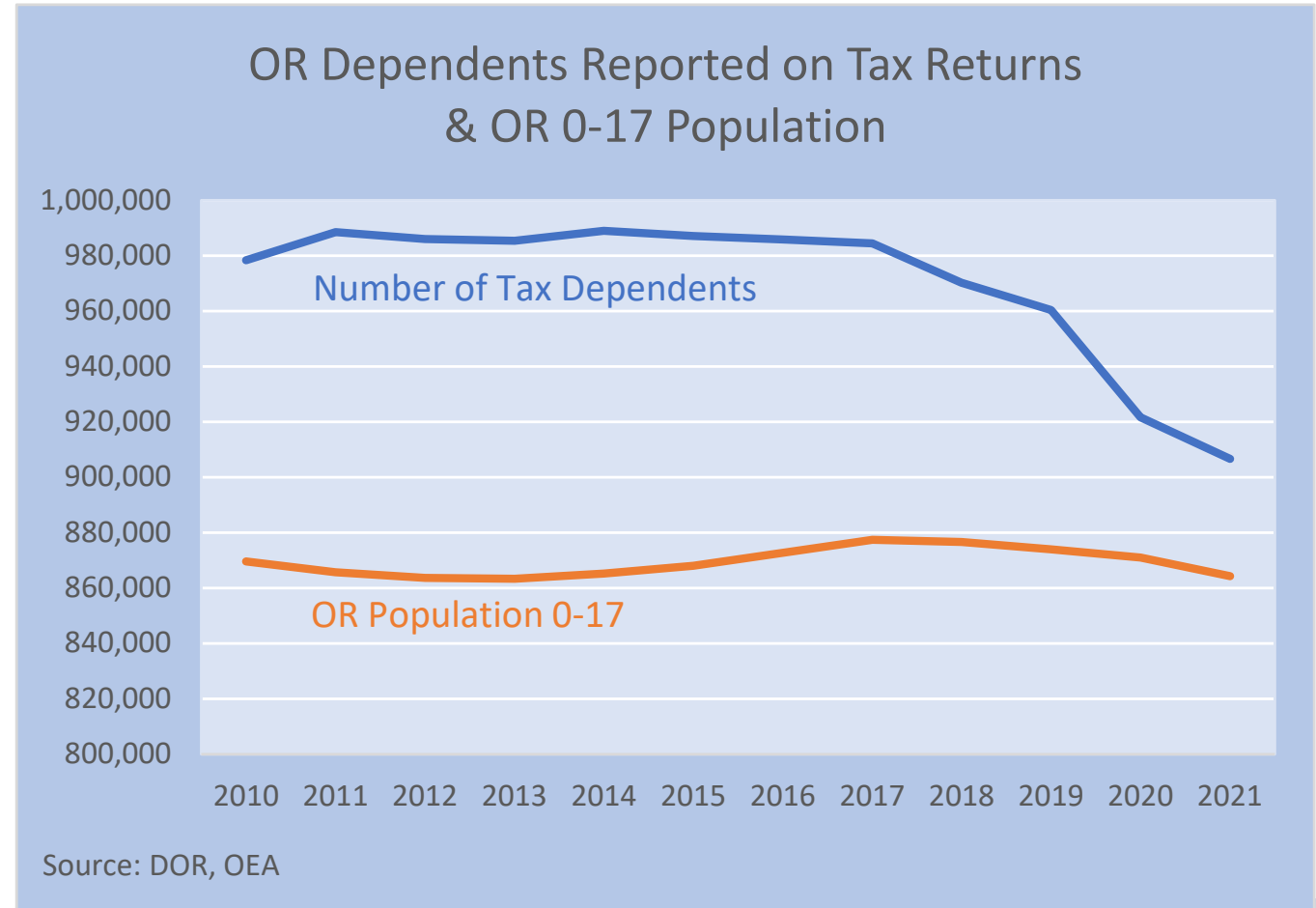
# Oregon Dependents





# Dependents on Oregon Tax Returns

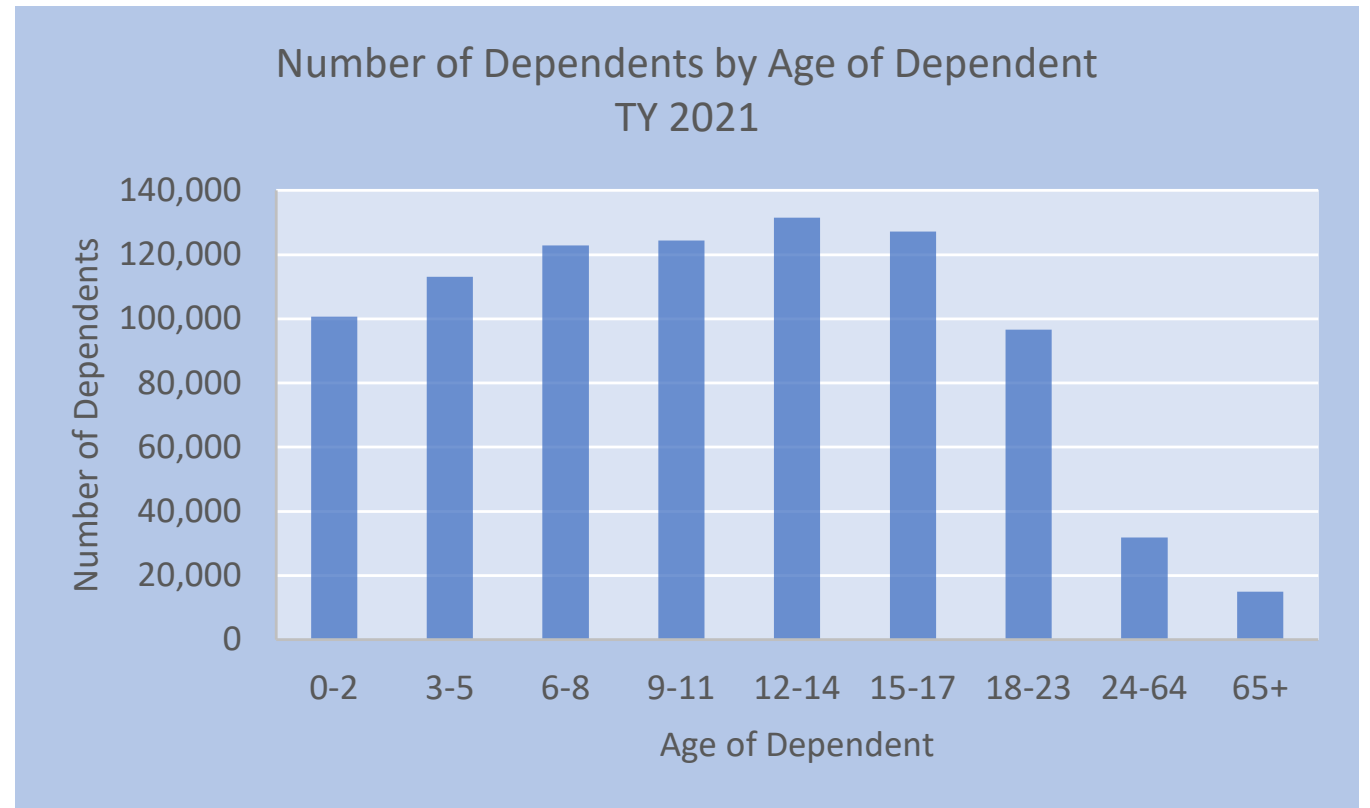
- Number of tax dependents relatively constant until recent years
- Dependents aligned with population but are a subset of the population (about 80% of OR population on tax returns)
- Recent decline in dependents across population, change primarily in number of claimed adult dependents





# Oregon Dependents by Age of Dependent

- Dependents are generally non-adult children
- Nearly 85% of dependents are under 18
- Tax returns only partially reflect multi-generational adult households

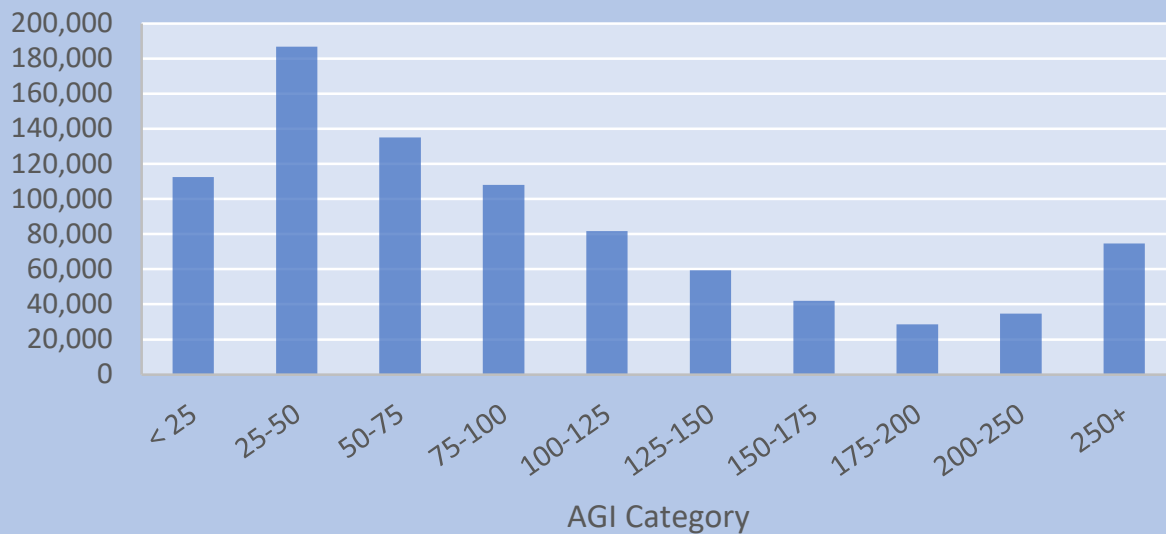




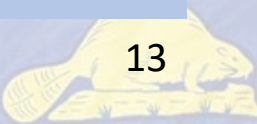
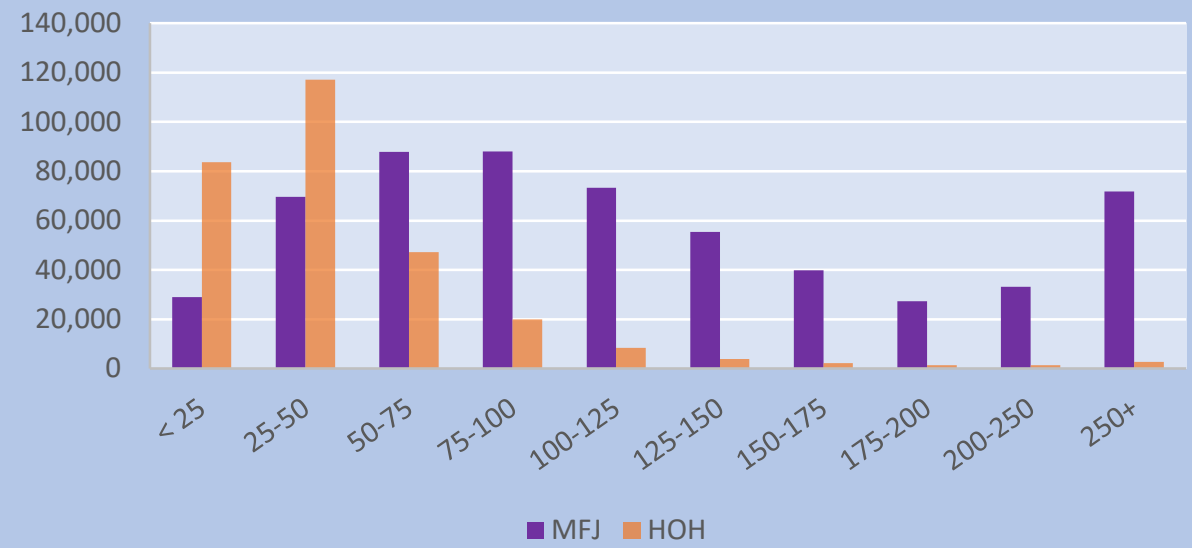
# OR Dependents by AGI & Filing Status

- Midpoint for income of returns with dependents is about \$75,000
- Nearly 2/3<sup>rds</sup> of dependents are on married filing jointly return

Number of Dependents by AGI of Taxpayer  
TY 2021

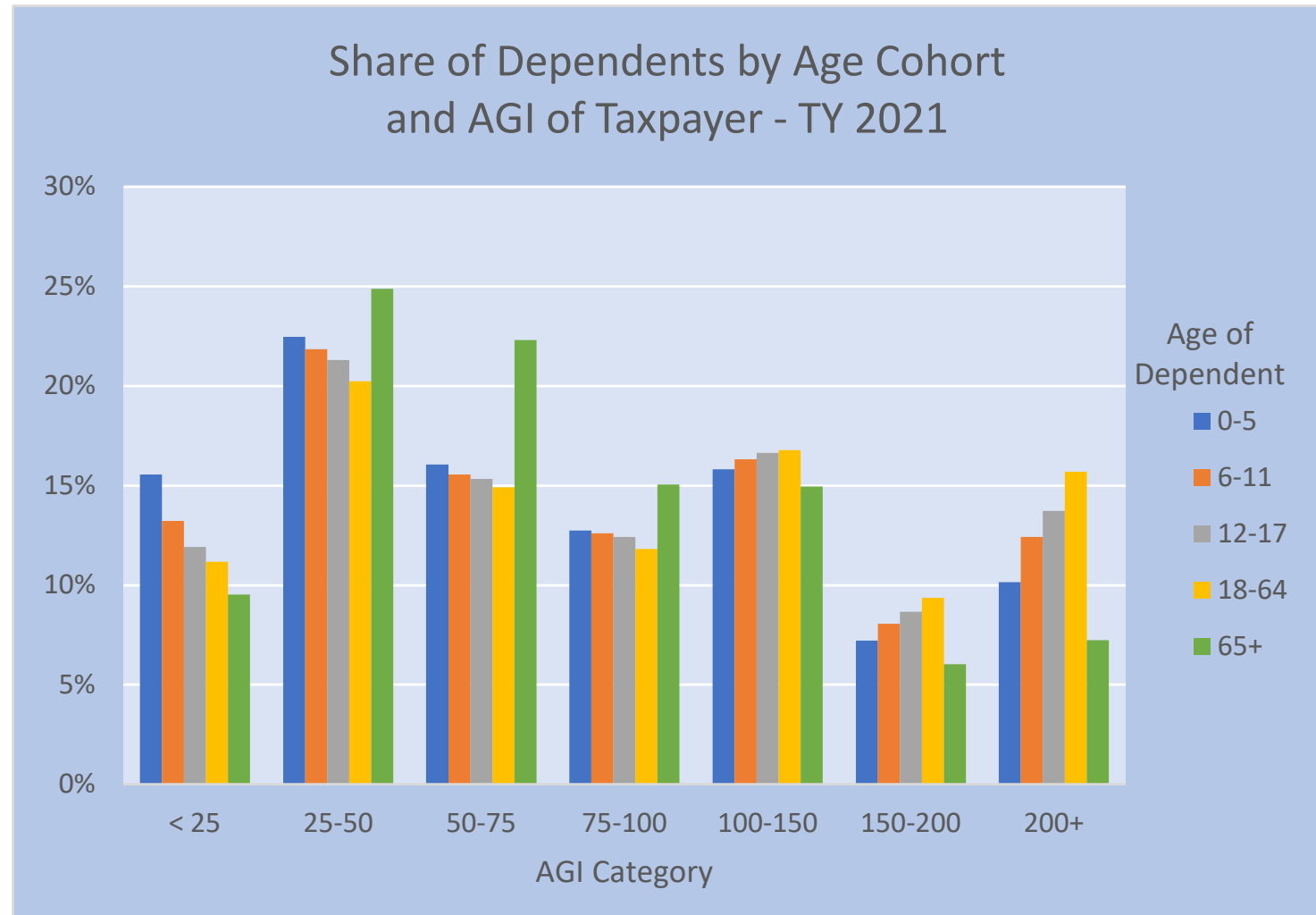


Number of Dependents by AGI of Taxpayer  
MFJ & HOH Taxpayers - TY 2021





# Oregon Dependents by AGI of Taxpayer & Age of Dependent



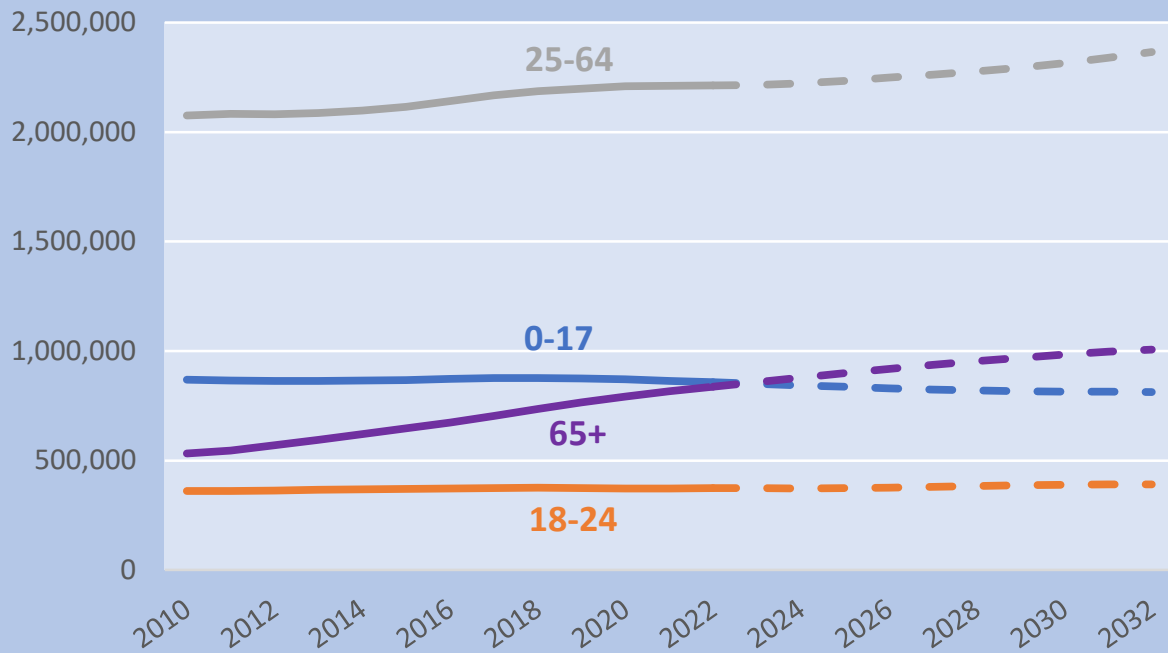
- Greater share of older child dependents as AGI increases
- Greater share of elderly dependents on returns < 100K AGI





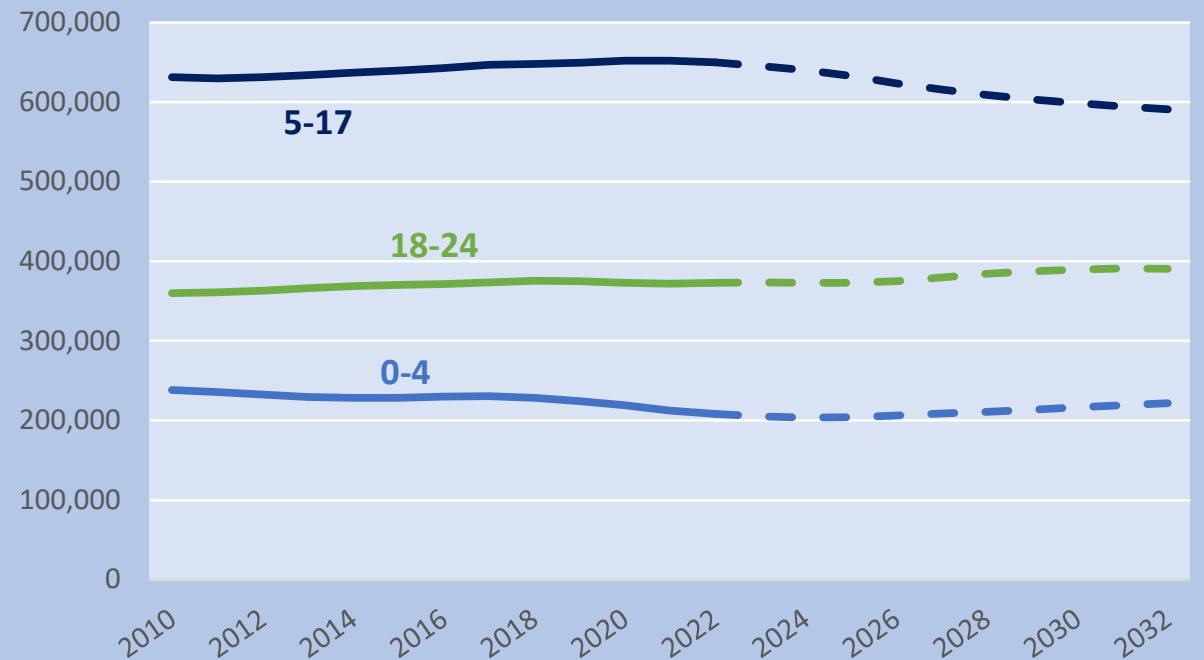
# Oregon Demographics

### OR Population by Age Cohort



Source: OEA

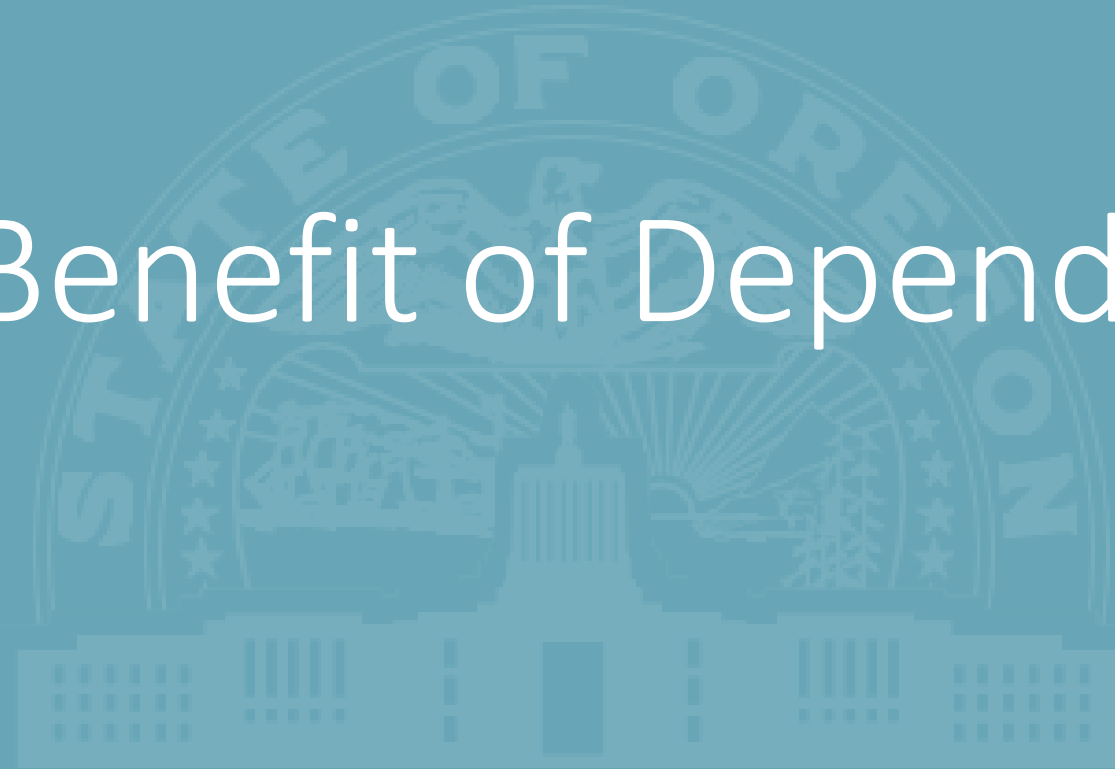
### OR Population by Age Cohort (Under 25)



Source: OEA



# Tax Benefit of Dependents





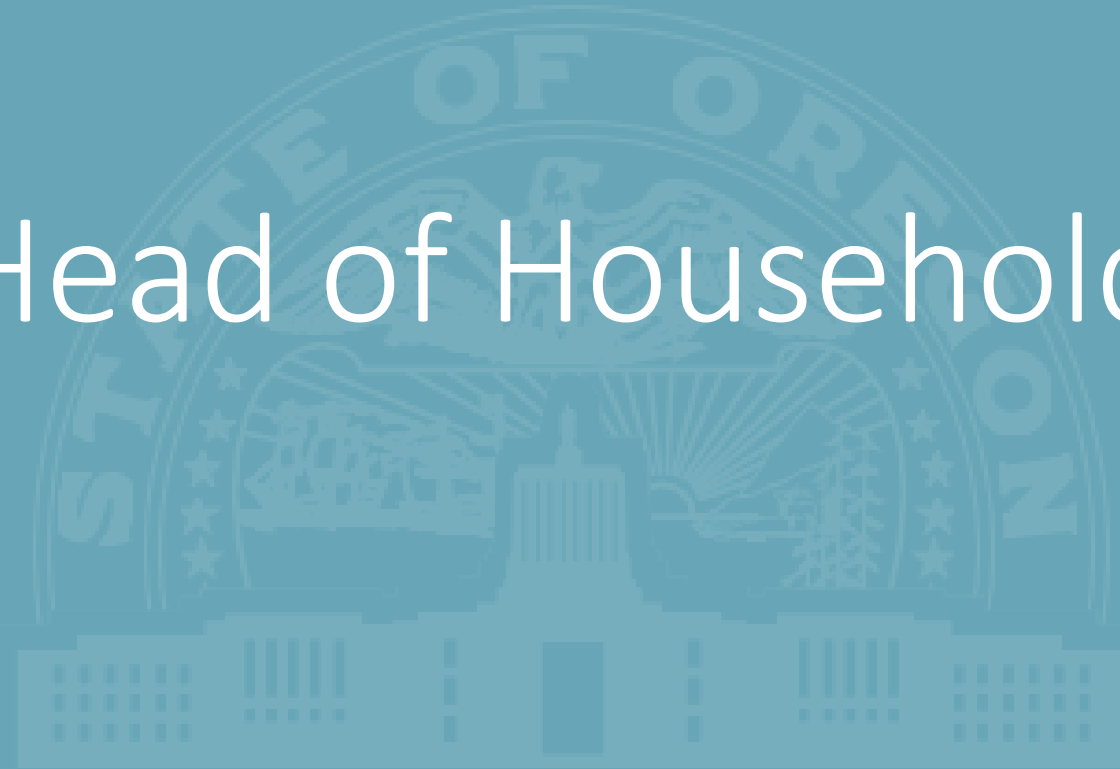


# Tax Benefit of Dependents: Oregon

- Filing status: Head of household
- Personal exemption credit
- Earned income tax credit
- Child tax credit



Head of Household





# Head of Household: Oregon

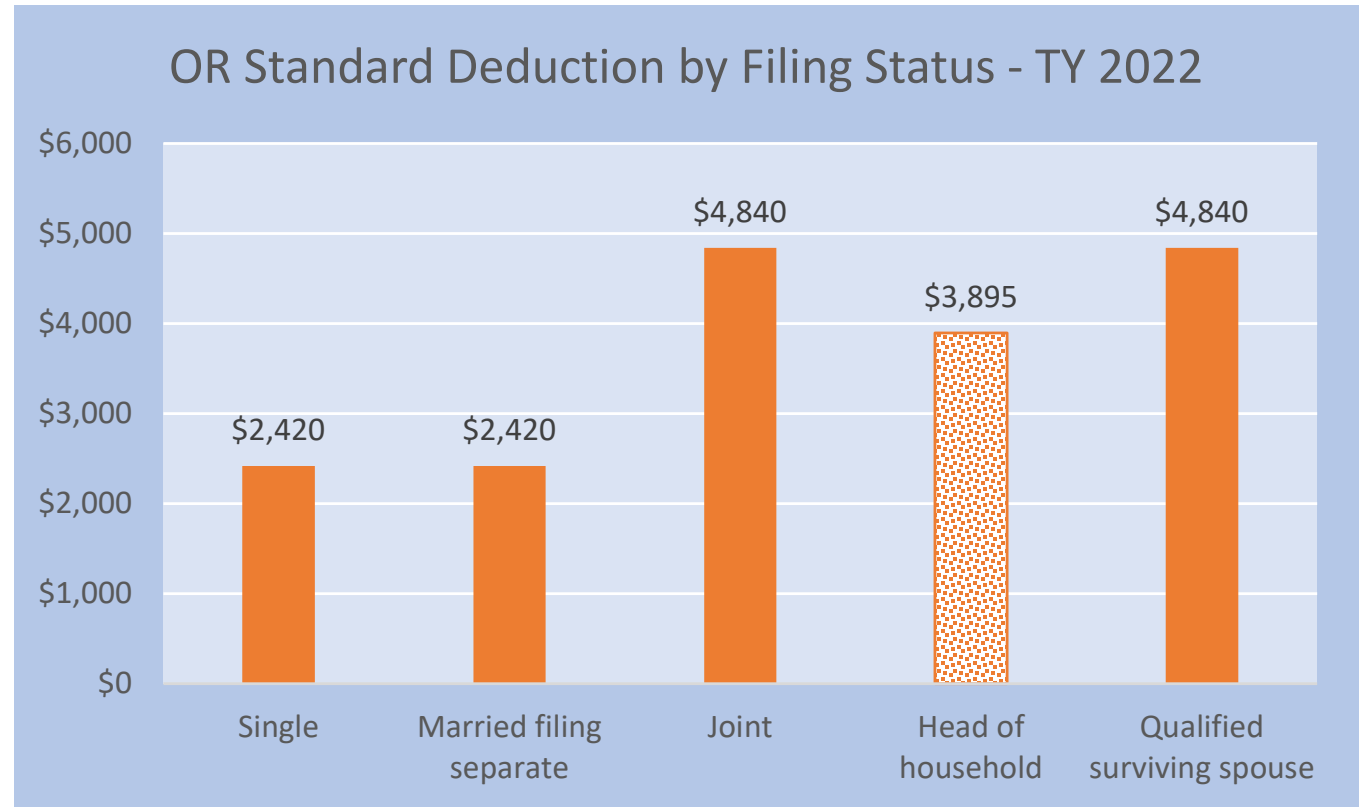
- Qualifying for head of household (HOH)
  - Unmarried & provide home for other persons
    - Paid over half of cost of keeping up main home of parent claimed as a dependent (parent does not have to live in same home as taxpayer)
    - Paid over half of cost of keeping up home in which taxpayer resides and has dependent(s) (exceptions exist)
- Benefits of being a HOH
  - Standard deduction
  - Tax Rates and brackets





# Head of Household: Oregon

- Standard deduction TY 2022
  - HOH difference from single: \$1,475
  - Equates to \$130 tax reduction at 8.75% tax rate
  - Does not benefit taxpayers claiming itemized deductions



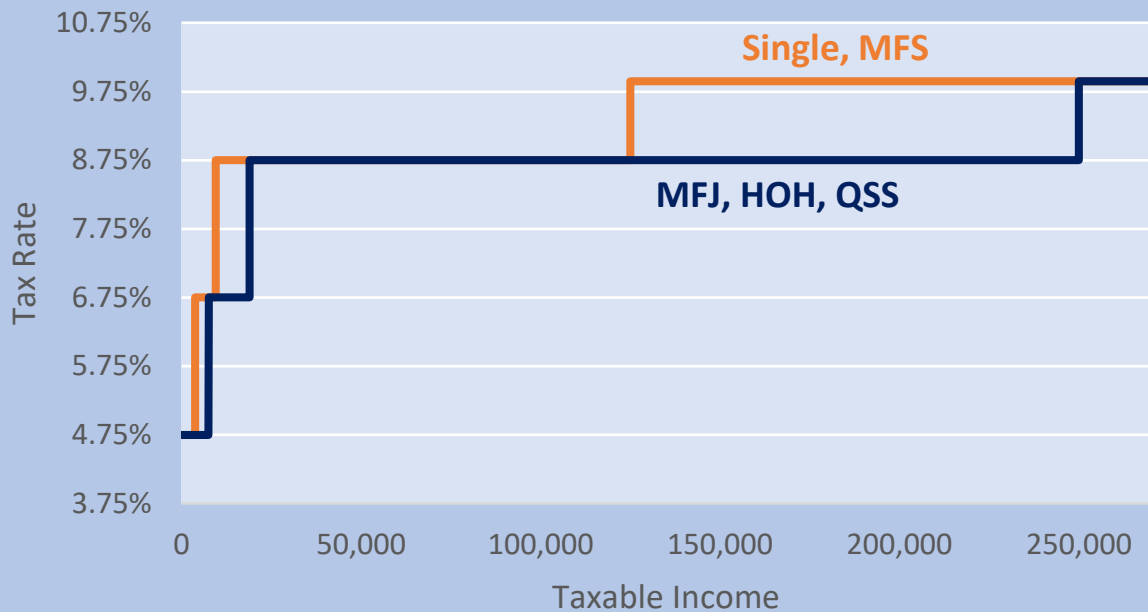


# Head of Household: Oregon

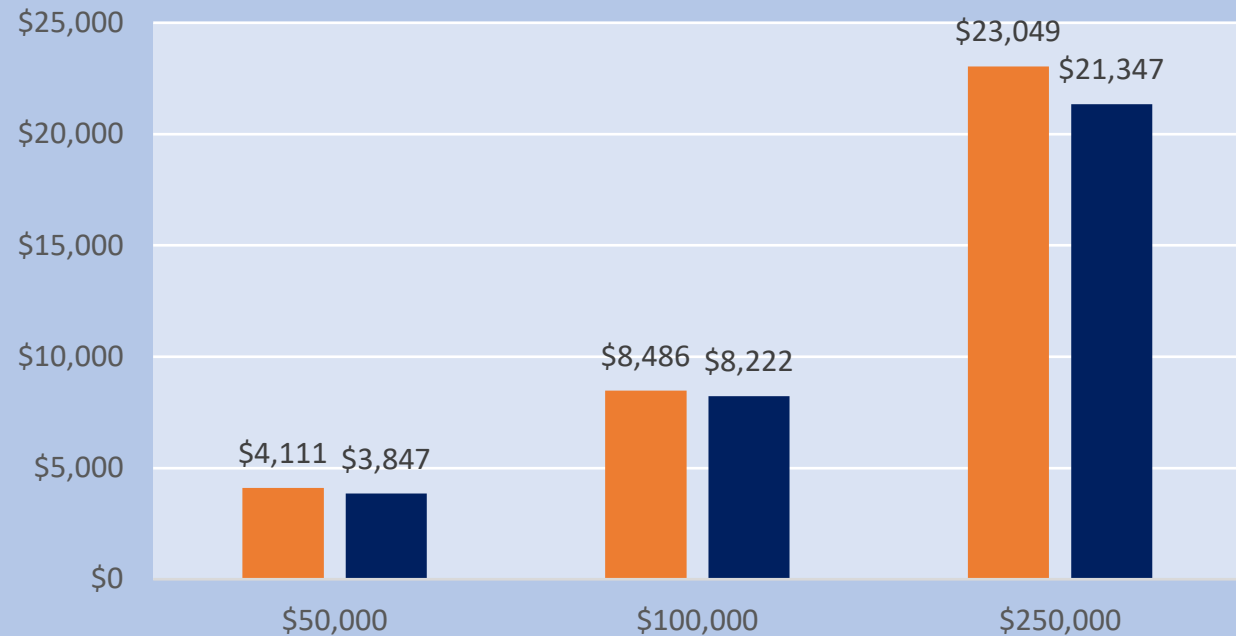
## Tax rates and brackets, TY 2022

Example of Tax Liability - Single and HOH			
Taxable Income	----- Tax Liability -----		
	Single	HOH	Diff.
\$50,000	\$4,111	\$3,847	\$264
\$100,000	\$8,486	\$8,222	\$264
\$250,000	\$23,049	\$21,347	\$1,702

OR Tax Rates and Brackets



Tax Liability Examples - Single / HOH



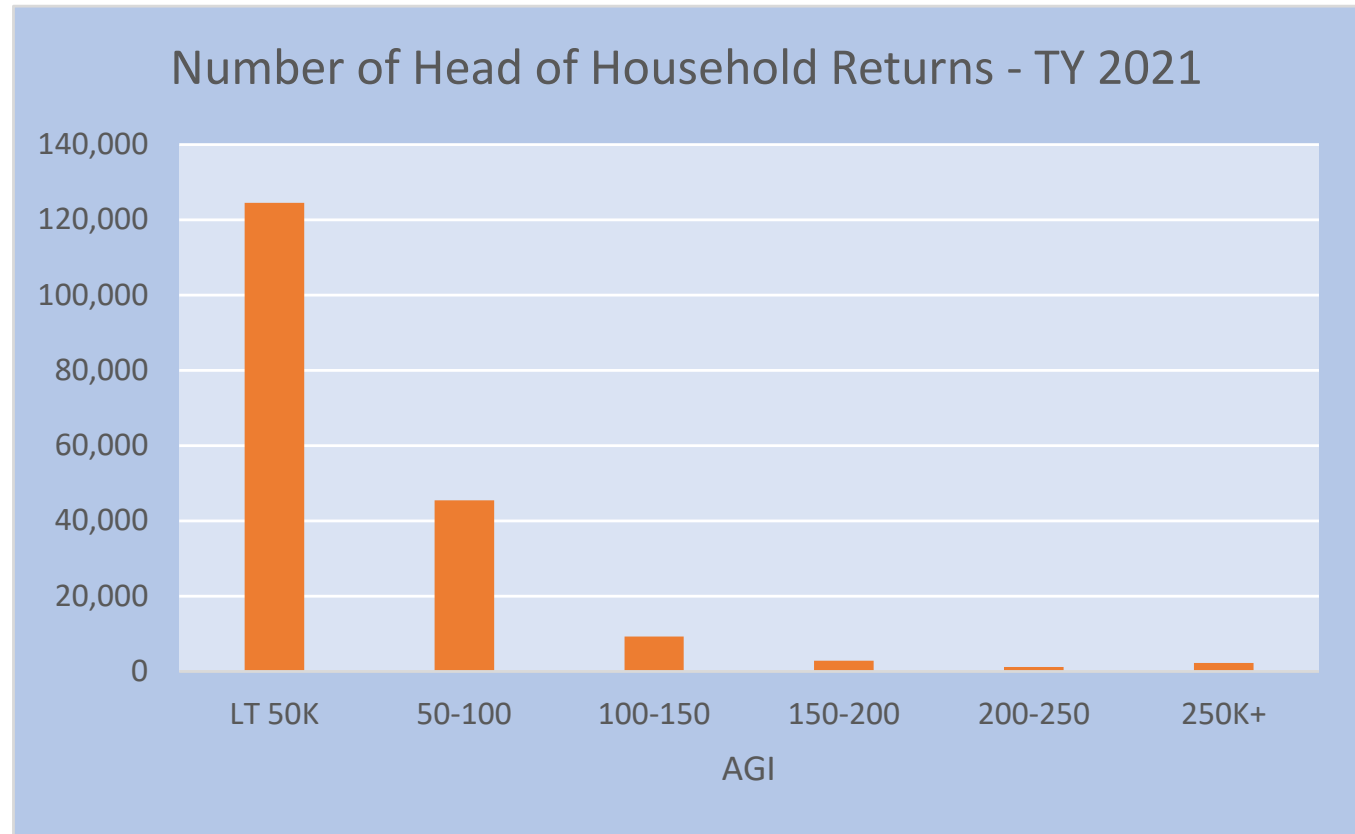


# Head of Household: Oregon

## Number of Head of Household Tax Returns by AGI - TY 2021

AGI	# Returns	% of Tot.
LT 50K	124,538	67%
50-100	45,442	25%
100-150	9,237	5%
150-200	2,779	1%
200-250	1,161	1%
250K+	2,272	1%
<b>Total</b>	<b>185,429</b>	<b>100%</b>

- Avg. tax reduction per taxpayer is about \$350 in 2021
- Annual revenue loss \$60 - \$70 million



# Oregon Personal Exemption Credit





# OR Personal Exemption Credit

- Non-refundable tax credit for each personal exemption on return
  - Amount = \$219 in 2022 (indexed to inflation)
  - Credit multiplied by number of personal exemptions (based on federal IRC section 151)
    - Exemptions: Filer, spouse, & dependents
      - Additional personal exemptions,
        - Filer and/or spouse are severely disabled
        - Child has a qualifying disability

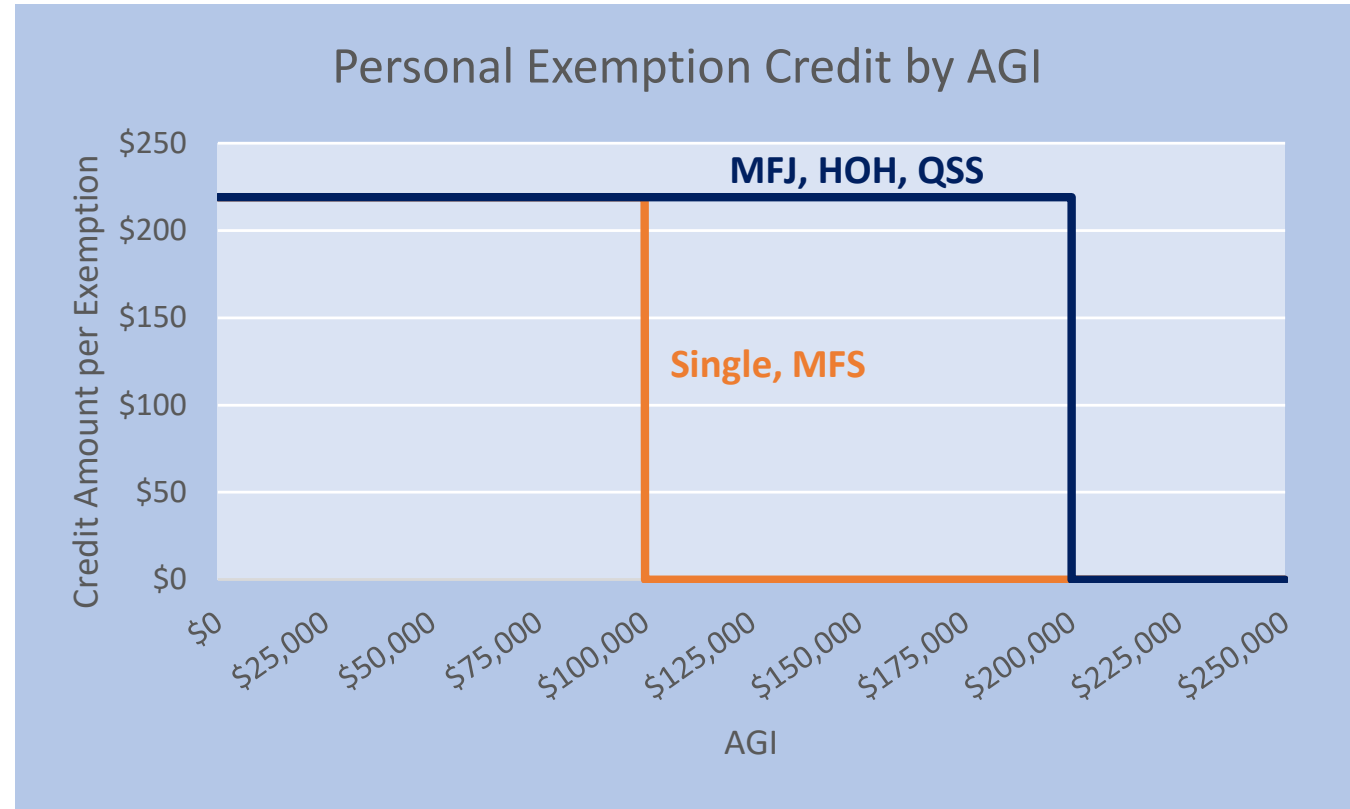






# OR Personal Exemption Credit

- Credit qualification AGI limits
  - Single/MFS: \$100K
  - MFJ, HOH, QSS: \$200K
  - Credit qualification “cliff”
- Change to exemption credit in contrast to tax rate / bracket changes
- TY 2021 total full-year credit cost: \$588M



# Oregon Earned Income Tax Credit (EITC)

The background features a large, faint watermark of the Oregon State Seal. The seal is circular and contains the text "STATE OF OREGON" around the perimeter. In the center, there is a figure holding a torch and a plow, with a ship below. The seal is set against a light blue background.



# Oregon EITC

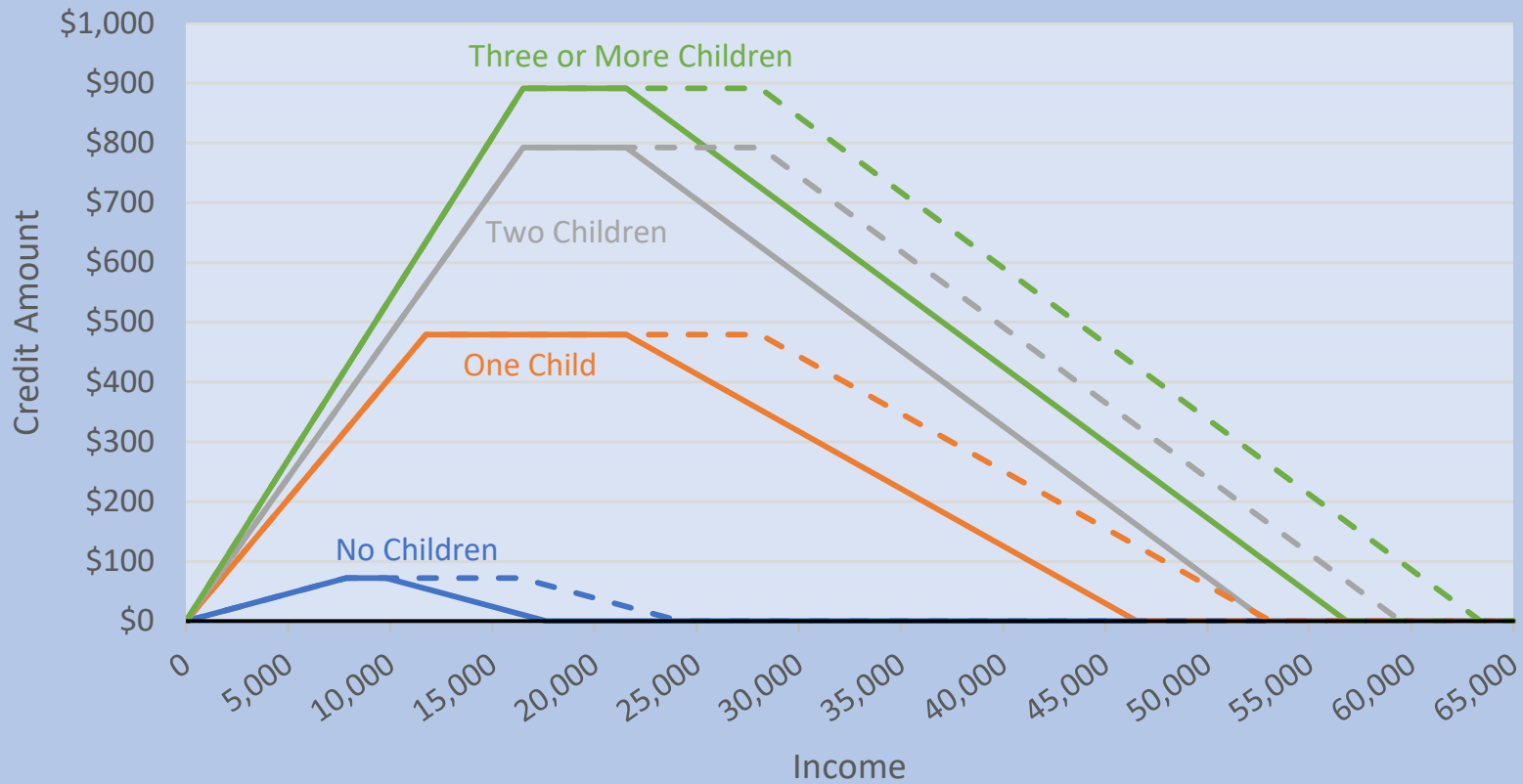
- Refundable income tax credit
- Oregon EITC is a percentage of federal EITC
  - OR Credit= 9% of federal credit amount
  - OR Credit= 12% if taxpayer has a dependent < 3 at close of tax year
- Federal credit amount is determined based on income, tax filing status, and number of qualifying children
- Revenue loss \$50-\$60 million per year





# Oregon EITC

## 2023 Oregon 12% Earned Income Credit

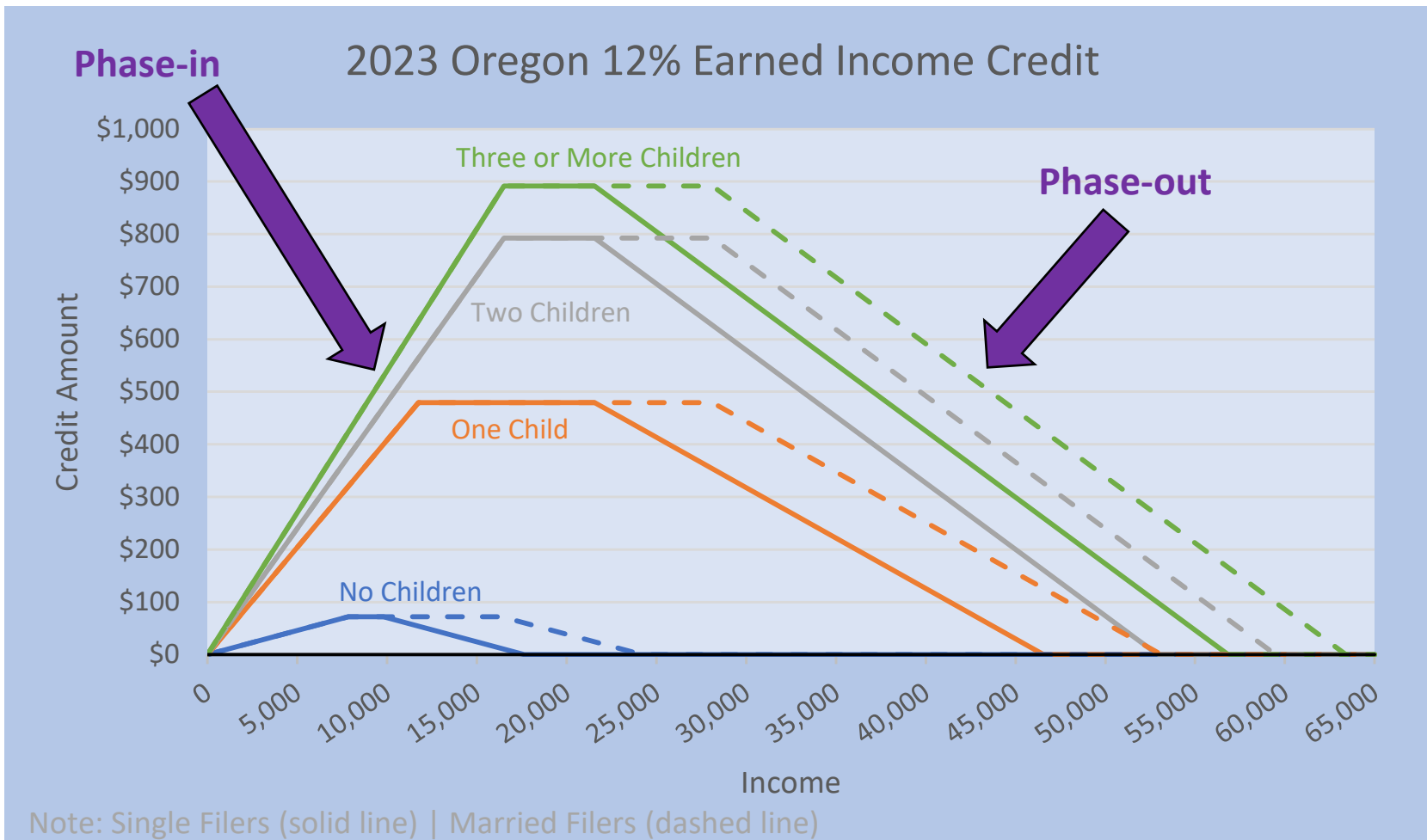


Note: Single Filers (solid line) | Married Filers (dashed line)

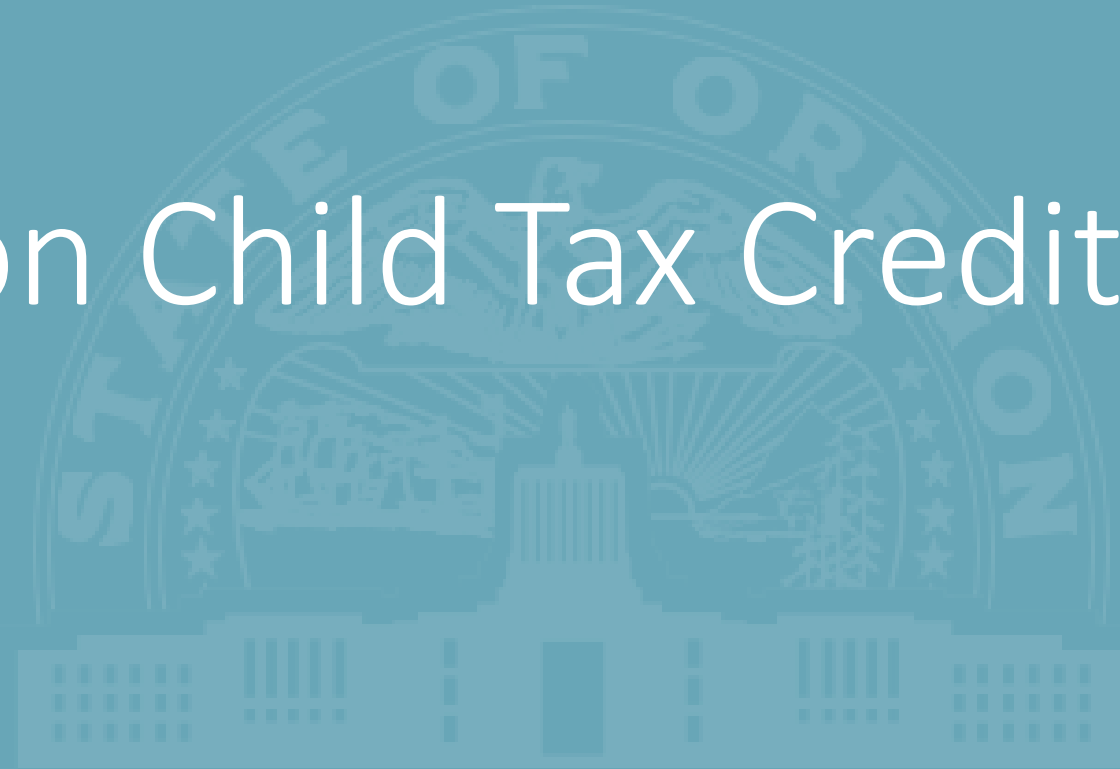




# Oregon EITC



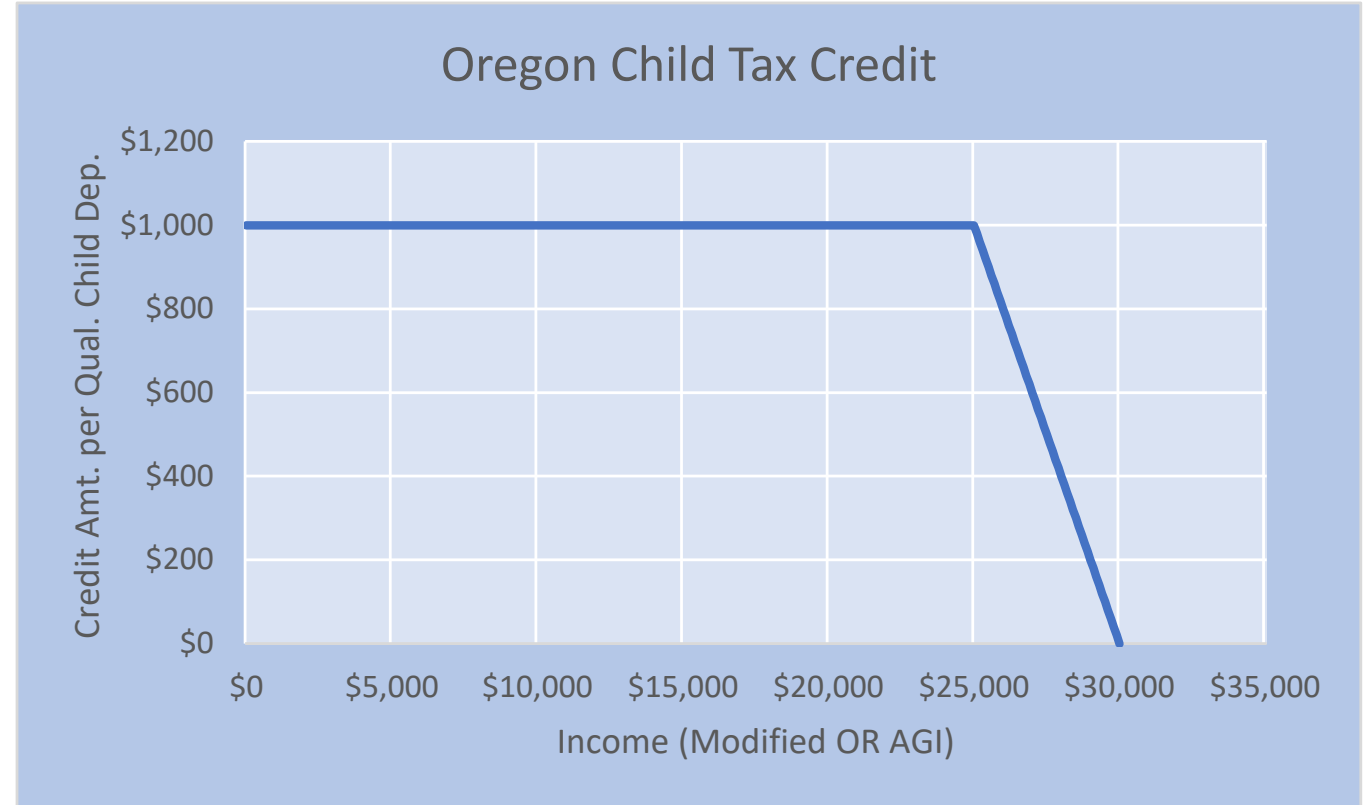
# Oregon Child Tax Credit (CTC)





# OR Child Tax Credit

- OR CTC enacted by HB 3235 (2023)
- Refundable credit= \$1,000 per dependent that is a qualifying child < 6 at end of tax year
- Full credit amount for taxpayer with modified AGI < 25K
  - Phase out: 25-30K
- Effective tax years 2023 through 2028
- Inflation indexed: credit amount & income phase-out beginning
- Estimated \$35-\$40 million per year





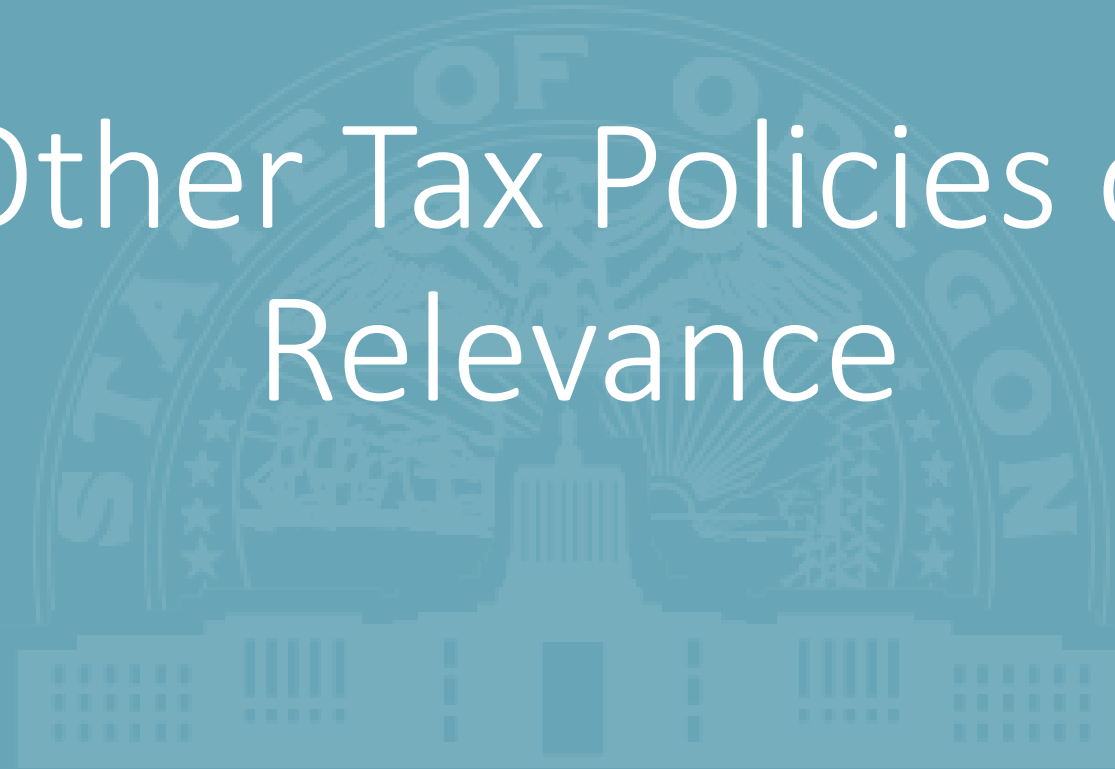
# OR Child Tax Credit: Advance Payments

- Oregon new CTC included potential advance payments of credit by Department of Revenue (DOR)
  - Quarterly payment of credit= 50% of determined qualified credit amount
  - Amount determined by DOR using previous tax information, develop system where taxpayers may submit relevant information and/or opt-out of payments
- Operative date of advance quarterly payments of credit
  - 2<sup>nd</sup> year following:
    - Federal waiver approved for credit not considered in Supplemental Nutrition Assistance Program (SNAP) income qualification
    - Changes in federal law/interpretation that recurring state payments not included for income eligibility considerations of federal public assistance programs





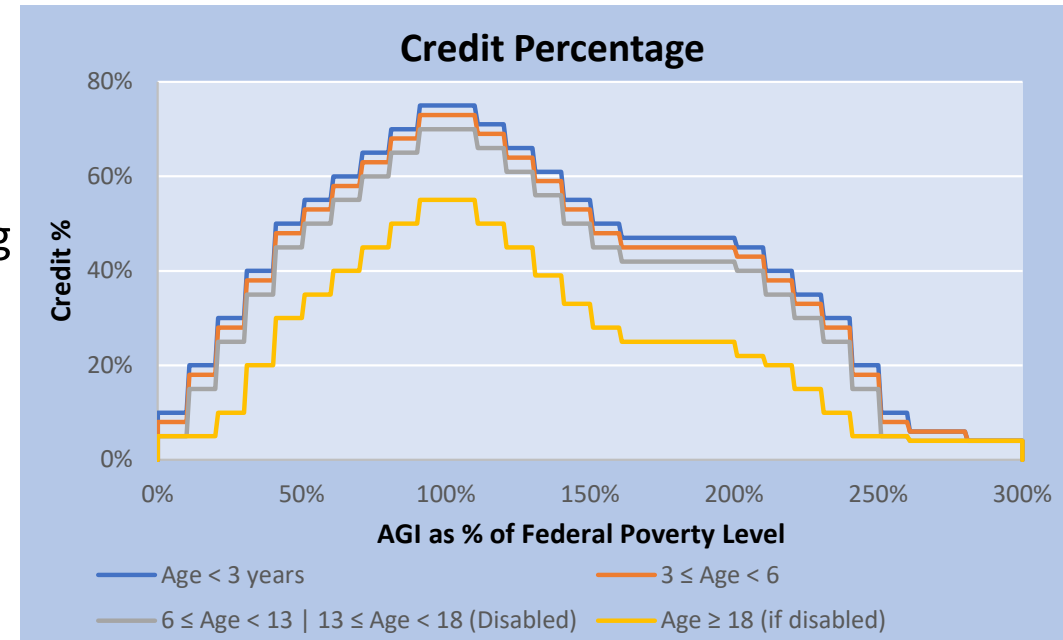
# Other Tax Policies of Relevance





# Other tax policies

- Oregon
  - Working family household and dependent care credit
    - Refundable income tax credit offsetting qualified expense costs (allow taxpayer to work or attend school) from caring for child and/or disabled individual living with taxpayer
    - Credit= percentage of qualified expenses with percentage adjusting to AGI as percentage of Federal Poverty Level
- Federal
  - Head of household filing
  - Credits/exemptions
    - Earned income tax credit
    - Child tax credit
    - Credit for other dependents
    - Personal exemptions (return in 2026 under current law)
    - Working family credit



# Legislative Revenue Office

<https://www.oregonlegislature.gov/lro>

503-986-1266

State of Oregon

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LEGISLATIVE REVENUE OFFICE

