

HB 3235 A -A10, -A11 STAFF MEASURE SUMMARY

Joint Committee On Tax Expenditures

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Meeting Dates: 5/30, 6/7, 6/8

WHAT THE MEASURE DOES:

Creates refundable personal income tax credit equal to \$1,200 per qualifying child dependent under the age of six at the close of the tax year. Limits number of qualifying dependents to no more than five dependents per taxpayer. Defines terms. Phases out tax credit for single filing taxpayers with qualifying income between \$20,000 to \$30,000, or between \$40,000 to \$50,000 for joint filers. Indexes to inflation, credit amount and phase out thresholds. Specifies that credit is not subject to garnishment. Applies to tax years beginning on or after January 1, 2024, and before January 1, 2030.

ISSUES DISCUSSED:

- Overview of credit & proposed policy options
- Terms and mechanics of credit
- Social determinants of health, income & poverty, federal child tax credit & pandemic assistance
- Periodic tax credit payments contrasted with credit amount received annually in lump sum
- Time period required to prepare for administering periodic (quarterly) tax credit payments
- Potential fiscal cost to Department of Revenue
- Potential of periodic credit payments being offset by reductions in other government transfer payments, seeking federal waiver from such offset
- SB 438 - waiver request for Working Family Household and Dependent Care credit (in Ways and Means)
- Distinction of married filing separately.

EFFECT OF AMENDMENT:

-A10 Specifies credit amount equal to \$1,000 per qualifying child dependent under the age of six. Phases out tax credit for all filer types with qualifying income between \$25,000 to \$30,000. Modifies determination of credit for part-year and nonresident taxpayers. Modifies indexing of tax credit thresholds. Applies to tax years beginning on or after January 1, 2023, and before January 1, 2029.

-A11 Includes language from -A10 amendment. Requires Department of Revenue (DOR) to establish by rule program for making quarterly payments to taxpayers. Specifies total amount of quarterly payments to equal fifty percent of amount of newly created tax credit. Specifies conditions for making quarterly payments and process to determine amount of such payments. Requires DOR to establish system by which taxpayers can opt-out of such quarterly payments and provide relevant information to DOR. Requires Department of Human Services to request federal waiver to exclude distributions of advance credit payments in determining eligibility for supplemental nutrition assistance (SNAP). Requires DOR to begin quarterly payments in January of year immediately following thirty days following federal waiver approval. Makes conforming changes.

BACKGROUND:

A tax credit reduces a taxpayer's tax liability on a dollar-for-dollar basis. Refundable tax credits first reduce a taxpayer's tax liability, with remaining credit amount issued to the taxpayer as a tax refund. Refundable tax credits ensure that a taxpayer receives the full amount of the tax credit. To qualify for the proposed Oregon child tax credit, a dependent must be under the age of six at the close of the tax year, bear a relationship to the taxpayer (child, brother, sister, stepbrother, stepsister, or descendant of any such relative), and have the same principal place of abode as the taxpayer for more than one-half of the taxable year.

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A federal child tax credit (CTC) is available to qualifying taxpayers. The federal CTC was initially enacted in 1997 and was originally a \$400 per child nonrefundable tax credit that generally provided tax relief to middle and upper-middle-income families. Since enactment, the credit has been modified numerous times, expanding its availability to more families and increasing in value. Under current law, the credit is partially refundable (credit amount initially phases in with income) and is equal to \$2,000 per child less than 17 years old with a phase out beginning at \$200,000 (single and head of household) and \$400,000 (married filing jointly). For 2021, the tax credit was temporarily increased to \$3,000 per qualifying child (\$3,600 for those under 6 years old) and made fully refundable with no income phase in.