

1.421 WORKING FAMILY HOUSEHOLD AND DEPENDENT CARE

Oregon Statute: 315.264
 Sunset Date: 12-31-2027
 Year Enacted: 2015

Carryforward: No
 Refundable: Yes
 Transferable: No

Revenue Impact			
	Corporation	Personal	Total
2023-25	Not Applicable	\$34,300,000	\$34,300,000
2025-27	Not Applicable	\$34,200,000	\$34,200,000

NOTE: The revenue impact estimate includes both the portion used to reduce tax liability, and the portion paid directly to taxpayers.

DESCRIPTION

A refundable personal income tax credit is allowed for low and middle-income working families with employment-related dependent care expenses. To qualify, the taxpayer must have paid qualifying expenses for one or more qualifying individuals (generally a dependent under age 13, a disabled dependent, a disabled taxpayer or a disabled spouse) so the taxpayer (and the taxpayer's spouse if filing jointly) could work, look for work, or attend school.

Qualified expenses include only amounts paid by the taxpayer for household services and care of the qualifying individual as specified by the federal child and dependent care expenses tax credit. The qualifying expenses cannot exceed \$12,000 for one qualifying individual or \$24,000 for two or more qualifying individuals and cannot exceed the taxpayer's earned and imputed income if filing single or the lesser of the taxpayer's or the taxpayer's spouse's earned and imputed income. These qualifying expenses limits are not adjusted for inflation. Imputed income is \$1,000 or \$2,000 multiplied by the number of qualified months a taxpayer was a student with one or more qualifying individuals, respectively.

For those filing jointly, if either the taxpayer or the taxpayer's spouse attended school full-time or were disabled, \$250 (\$500 if two or more qualifying persons cared for) per month counts toward earned income for that person.

A taxpayer cannot claim the credit unless the taxpayer's adjusted gross income (AGI) is less than or equal to three times the federal poverty guidelines. For 2024, the AGI limit by household size is:

Household Size	AGI Limit
2	\$61,320
3	\$77,460
4	\$93,660
5	\$109,740
6	\$125,880
7	\$142,020
8 or more	\$158,160

The amount of the credit as a percentage of qualifying expenses varies depending on the taxpayer's household size, AGI, and the age of the youngest dependent. The percentage varies from 4 percent to 75 percent of the qualifying expense. The amount of the credit initially increases with income and then decreases until the credit is not allowed above three times the federal poverty guidelines. The credit increases for taxpayers with younger dependents.

Following the creation of this tax credit in 2015, the Legislature made minor technical modifications to it in 2017 (SB 162) and 2018 (HB 4028). In 2021, the Legislature (HB 2433) extended the sunset for this income tax credit to

December 31, 2027, and modified other provisions, including accounting for imputed income (in addition to earned income subject to taxation) as noted above, applicable on or after January 1, 2022 and before January 1, 2028.

PURPOSE

The statute that allows this expenditure does not explicitly state a purpose. According to the legislative staff revenue impact statement for HB 2433 (2021), the “policy purpose of the credit is 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.”

WHO BENEFITS

Low and middle-income working taxpayers with employment-related dependent care expenses whose federal adjusted gross income is less than three times the federal poverty level.

The table below shows usage of this credit for tax year 2022.

2022 Personal Income Tax Filers				
Income Group of Full-Year Filers*	Number of Filers Using Credit	Average Revenue Impact of Credit	Revenue Impact (\$ millions)	Percent of Revenue Impact by Income Group
Below \$19,400	1,790	\$1,270	\$2.3	14%
\$19,400 - \$40,400	4,790	\$1,480	\$7.1	43%
\$40,400 - \$67,700	5,970	\$990	\$5.9	36%
\$67,700 - \$117,800	2,340	\$560	\$1.3	8%
Above \$117,800	30	\$360	<\$0.1	<1%
All Full-Year Filers	14,920	\$1,110	\$16.6	100%
Part-Year and Nonresident Filers	1,250	\$710	\$0.9	

*Each income group contains 20 percent of the full-year filers (approximately 376,000)

Since this is a refundable credit, the full amount of credits claimed can be used, even if the taxpayer has little or no tax liability. Of the approximately \$17.5 million claimed for 2022, \$10 million was used to reduce tax liability, while the remaining \$7.5 million exceeded tax liability and was paid directly to taxpayers.

EVALUATION

Provided by the Oregon Department of Human Services

With the high cost of dependent care in Oregon, this tax credit is helpful to families, though many still struggle to afford quality dependent care needed to work or attend school. This credit supplements other programs provided by the State of Oregon to help families afford dependent care and move towards self-sufficiency. Because this credit is only available to those who file a tax return, providing free tax preparation assistance to low-income families statewide is critical to ensuring that all eligible families receive the benefits of this credit.