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Policy Considerations and Challenges for Successful Passage of New Child Tax Credit in Oregon

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By one official measure, the U.S. child poverty rate fell by nearly half to 5.2% in 2021, largely due to the federal Child Tax Credit. The credit lifted 2.9 million children above the poverty line in 2021, with the temporary, pandemic expansion of the tax credit responsible for 2.1 of those 2.9 million.

That child poverty rate rebounded to over 12 percent when the credit ended in 2022. Since then, several states created or expanded their own child tax credits to soften the blow of the loss of the federal credit. More state action is critically needed.

Oregon provides a case study of considerations and challenges, as well as of likely allies and opponents, for passing a new or expanded child tax credit at either the state or national level. In June 2023, the Oregon Legislature passed a child tax credit of $1,000 a year for each of up to 5 children under age six, in households with incomes of $25,000 or less. Oregon's credit is completely refundable, so eligible families with low incomes receive the full amount as a tax refund, regardless of their income level or tax obligation.

Oregon's Champions and Advocates

The Oregon Center for Public Policy led the push for the Oregon Kids Credit, working with community partners and legislative champions. Daniel Hauser, Deputy Director of the Oregon Center for Public Policy, said that creating a state child tax credit presented an opportunity for a bi-partisan anti-poverty policy solidly supported by research. The Center's community partners saw the Kids Credit as a route to greater tax justice and higher incomes at the bottom.

As one of the chief sponsors of the bill, legislator and pediatrician Lisa Reynolds said, **"Children are particularly vulnerable to the consequences of poverty, which is often a source of toxic stress in the home and can lead to hunger and homelessness. Children raised in poverty often become impoverished adults."**

A broad coalition pushed for the new Oregon Kids Credit. Community-based advocacy groups working hardest included those focused on poverty, children, and communities of color. Jennifer Taylor Parrish, Director of Advocacy and Public Policy for the Urban League of Portland, describes the League's support as driven by the big impact of the expanded federal children's credit, especially for Black families, and the importance of no-strings-attached cash assistance that can be spent where it is needed most.

National organizations also helped with policy guidance, particularly the Center for Budget and Policy Priorities and the Institute on Taxation and Economic Policy.

Oregon Kids Credit Policy Specifics

As first written, Oregon's House Bill 3235 called for $1,200 a year for every child under 18 in families with incomes up to the state's median household income. The total cost was reckoned at nearly $300 million a year. Legislators viewed that as a very large ask, anticipating the need to cut overall spending from 2 to 8 percent, while the Governor's overriding priority was housing.

As revenue estimates rose, Oregon's legislature settled on a new child tax credit of $1,000 a year for each of up to five children under the age of six in eligible households. To qualify for the full amount, a family's annual Adjusted Gross Income must be $25,000 or less, with a complete phase-out of the credit when family income reaches $30,000. These thresholds and the amount of the credit will rise with inflation.

Upon passage, funding was just over an eighth of the initial request, at $35 million a year, including the costs of adding administrative staff to both the Oregon Departments of Revenue and of Human Services.

Challenges and Opposition

Representative Andrea Valderrama, another Chief Sponsor, said, as well as funding, "another obstacle was the education necessary for both legislators and coalition partners on what refundable tax credits are... Gaining buy-in on tax credits was not easy – information on the process for applying for the tax credits and demonstrating that the program was administratively feasible were both obstacles that proved challenging."

While yielding to a budget-driven view of the size of the program, legislators wrestled with efforts to

- Make the money available in advance of tax day, preferably in the form of monthly checks during the tax year in which a family qualified,
- Keep receipt of the Oregon Kids Credit from reducing federally funded benefits, such as food assistance (SNAP) or the earned income tax credit, and
- Prevent the Oregon Kids Credit money from being garnished.

Each of these priorities presented difficulties that required compromises. Sending out regular checks during the tax year itself meant additional work for state employees. Keeping families whole with respect to federal food assistance and the earned income tax credit could only happen with federal approval in some form. Bank lobbyists resisted providing a shield against garnishment, saying it would be difficult for banks to protect tax credit money.

The final outcome included additional funding for affected Oregon State Departments, the possibility of quarterly checks in advance if a federal guarantee could be obtained that the Oregon Kids Credit would not reduce any family's federal benefits, and a process for families to attempt to recapture tax credit funds if they are garnished.

Caveat

The widely reported drop in child poverty to just over 5 percent, resulting from the temporary expansion of the federal Child Tax Credit, was rightly celebrated. However, the impact may be less than it may appear, for two reasons. The first is that the news of a single-digit child poverty rate reflects a new, more nuanced but relatively little known poverty measure that counts federal benefits as income, including the food and housing assistance more often available to families with children. The second is that a few thousand dollars were enough to push families just over the poverty line, but not very far above it.

The U.S. now reports two official poverty measures. The big reduction in child poverty due to the temporary federal Child Tax Credit relies on the Supplemental Poverty Measure (SPM), reported by the Census Bureau since 2011. The Supplemental Poverty Measure for children tends to be much lower than indicated by the older, Official Poverty Measure. In 2021, the child poverty rate, as calculated by the Supplemental Poverty Measure, dropped to 5.2 percent, while the Official Poverty Measure indicated a child poverty rate of 21.8 percent.

Scholars regard both poverty measures as being set too low, by international standards and when compared with the U.S. cost of living. Over time, our poverty thresholds have fallen away from the U.S. mainstream, as captured by median incomes. Most researchers use a multiple of the official poverty thresholds when describing poverty in the U.S.

Raising children and their families above either of the current U.S. poverty measures is important but only a first step toward the full anti-poverty program we need to end intergenerational poverty and the stunting of the potential of millions of children.

Next Steps

Advocates for the Oregon Kids Credit hope to see the amount of the credit grow over time and to be made available for older children as well as for children in families with incomes further above the poverty line. Ivy Major-McDowell, of Our Children Oregon, also says, later, “we need legislators to continue to invest in direct cash options like this… Now we need to make sure the implementation of the Oregon Kids’ Credit goes smoothly. Outreach and accessible communication will be key.”

Expanding to all children in all families with low incomes would be much easier to accomplish with the resources of the federal government. State actors hope to create champions and pressure for national action, while providing immediate help to stressed families. **Also critical for fighting poverty in the U.S. is the adoption of a more realistic poverty measure.**