REVENUE IMPACT OF PROPOSED LEGISLATION

81st Oregon Legislative Assembly
2021 Regular Session
Legislative Revenue Office

Bill Number: HB 2457 - A10
Revenue Area: Income Taxes
Economist: Kyle Easton
Date: 6/14/2021

Only Impacts on Original or Engrossed Versions are Considered Official

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Measure Description:

Updates connection date to federal Internal Revenue Code and other provisions of federal law from December 31, 2018 to April 1, 2021.

Revenue Impact (in $Millions):

	Fiscal Year			Biennium		
	2021-22	2022-23		2021-23	2023-25	2025-27
General Fund	-$12.7	-$0.2		-$13.0	-$0.4	-$0.4

Impact Explanation:

Since Oregon last updated the point-in-time federal statutory connection date (currently December 31, 2018), multiple substantive federal tax policy measures have been enacted. In December of 2019, H.R. 1865 was enacted which included provisions modifying and/or extending numerous tax provisions. In March of 2020, S. 3548, known as the CARES Act was enacted which included provisions relating to retirement savings, disaster relief, and extension of previously expired or expiring provisions. In December of 2020, H.R. 133, named the federal Consolidated Appropriations Act (CAA), was enacted and included provisions modifying and/or extending numerous tax provisions. In March of 2021, H.R. 1319 (American Rescue Plan Act - ARPA) was enacted and included numerous tax law provisions relating to promoting economic security and providing income support through the tax system. Most of the changes contained in the respective federal measures were automatically incorporated into Oregon tax law through Oregon's rolling reconnect to the definition of federal taxable income. In some instances, federal tax law changes are incorporated into Oregon tax law when Oregon's point-in-time connection to federal tax statute is updated.

Temporary and permanent modifications to the federal earned income tax credit (EITC) were included in the CAA & ARPA measures. As Oregon's earned income tax credit is a percentage of the federal credit, adopting a point-in-time connection date that is after the respective measures' enactment dates causes Oregon's earned income tax credit to be modified in accordance with the federal changes.

For the purposes of calculating the EITC on their 2020 tax return, the CAA allows taxpayers to substitute their 2019 earned income for their 2020 earned income if their earned income at the end of 2020 is less than their 2019 earned income. The ARPA also allows a taxpayer to substitute their 2019 earned income for their 2021 earned income on their 2021 return if their earned income at the end of 2021 is less than their 2019 earned income.

For tax year 2021 only, the ARPA expands the EITC for taxpayers with no qualifying children by reducing the minimum age eligibility, eliminating the upper age limit, and modifying the credit formula. The ARPA also permanently expands the EITC by increasing the investment income disqualification limit, modifying qualification for taxpayers where all qualifying children do not have Social Security Numbers, and expands qualification for separated taxpayers living with children.

Revenue impact table reflects estimates resulting from changes to the EITC. Most of the substantive revenue changes to the EITC are temporary for tax year 2021, causing most of the revenue loss to occur in the 2021-23 biennium. Permanent changes to the EITC are reflected in impact estimates for the 2023-25 and 2025-27 biennia. Not reflected in the table is an estimated -$3.4 million change in revenue resulting from the tax year 2020 EITC change which is already being incorporated into the General Fund revenue stream as 2020 tax returns are actively being filed.

Measure modifies the definition of “qualified higher education expenses” for purposes of 529 higher education account withdrawals, to include expenses associated with registered apprenticeship programs and amounts paid as principal or interest on a qualified education loan. This modification is expected to have a minimal impact on revenue as changes are expected to modestly increase the use of Oregon’s 529 contribution tax credit. Estimate of minimal increased use of credit is informed by historic taxpayer 529 tax benefit use and taxpayer behavior.

Creates, Extends, or Expands Tax Expenditure: Yes ☒ No ☐

The policy purpose of the earned income tax credit is to increase the spendable income of low-income working families by offsetting state income taxes on such households, thereby encouraging low wage earners to enter the labor force or earn more if already part of the labor force.

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