

April 29, 2021

House Committee on Revenue
Oregon State Legislature
900 Court Street NE
Salem, OR 97301

Chair Nathanson, Vice-Chair Reschke, Vice-Chair Pham, and Member of the Committee,

I appreciate the opportunity to submit testimony in favor of HB 2551A, and in support the Oregon Individual Development Account (IDAs) Initiative which is a state investment in the financial stability and resilience of our communities across Oregon. My name is Carlos David Garcia, and I am Executive Director at Neighborhood Partnerships (NP). NP has the privilege to serve as contract administrator for the IDA Initiative on behalf of the State. As contract administrator, we raise funds for the Initiative via the IDA tax credit, grant out dollars to providers, and provide technical assistance, financial oversight, compliance for the program and advocate for robust funding for the Initiative to positively impact Oregonians.

IDAs help build hope by creating stronger financial futures for Oregon individuals and families living on low incomes. By providing matched savings opportunities, information about financial systems, and coaching that meets people where they are at, IDAs help savers reach their financial goals and build assets. Savers buy homes, start businesses, go to trade school or college, or meet another financial goal that helps set them on a more stable financial footing. It's this asset accumulation that provides our savers the security and space they need to look ahead, to plan for the future, and to reach their full potential. The work and impact of the IDA Initiative is especially important right now given the economic uncertainty due to the pandemic. It is critically important that people continue to have access to this resource and help build a bedrock of savings and financial stability to help manage life's up and downs.

I wanted to provide some context and background information on the funding mechanism for the IDA Initiative, the IDA tax credit, and how recent changes in the last several years have subsequently impacted the incentive for taxpayers to donate to the IDA program and thus our ability to fully fund this impactful program.

Since its inception in 1999, the Oregon IDA Initiative has been funded by a state income tax credit authorized in ORS 315.271. When taxpayers donate to the Initiative, they receive a state tax credit that can be used to offset their Oregon income tax liability. The tax credit mechanism has allowed us to leverage state resources effectively – with a high of 2018, when we sold \$7.5 million of tax credits for \$10.8 million. This was possible because at a 70% tax credit rate we were able to raise \$1.44 of resources for the Initiative with each tax dollar foregone. Between 2012 and 2018 NP had no issue selling out of the IDA tax credit because donating to the IDA Initiative translated into a net financial

benefit for donors who were able to claim both a state tax credit and a federal charitable deduction on the full amount of their donation.

After the 2017 federal Tax Cut and Jobs Act limited state and local tax deductions, several states issued new tax credits. In reaction, in August of 2018, an IRS regulation was issued which stated that money received in return for state tax credits could not be deducted as a charitable contribution on federal taxes. That rule, temporary on August 18, 2018 and made permanent in June 2019, and reduced the tax benefit donors received, thereby making our IDA tax credit less attractive and marketable to donors.

In anticipation of the impacts of these changes, advocates worked with the Legislature in 2019 to increase the tax credit cap from 70% to 90%, leaving the tax credit authority capped at \$7.5 million. We hoped that this would allow us to raise at least \$8.3 million for the Initiative. That represented a \$2.4 million reduction in funding for the Initiative due to these structural changes.

2019 was the first year the changes at the federal level impacted our State program and NP was unable to sell our full allocation of state tax credits for the time in over 7 years. We ended the year with \$2.1 million of tax credits unsold, in spite of aggressive marketing and impeccable customer service. This was due to the reduced tax benefit donors received caused by the changes at the federal level. Given these changes the IDA Initiative was facing significant funding shortfall of over \$4.5 million which was unprecedented. Our experiences in 2019 lead us to believe that the credit was not as viable an option when offered at 90 cents of state tax credit per dollar received.

Because of the unmarketability of the tax credit and significant funding gap it created for our 2020 program year, in early 2020 our advocacy efforts included sunsetting of the tax credit and converting to General Fund as the primary funding mechanism for the Initiative. We also requested a one-time General Fund request to fill our funding gap.

During the August second special session, with the support of the Legislature we were able to secure an additional \$2 million in General Fund to address our reduced funding and support enrolling additional savers across the State. It was under these circumstances and environment that in the summer and fall of 2020 that together with our Initiative partners, OHCS and the Governor's office that we crafted the legislative proposal that is the basis for SB 82.

NP established our original 2021 advocacy agenda under the assumption that tax credit sales numbers would underperform in 2020 as they did in 2019. In fact, in November 2020 tax credit sales were roughly at \$2.5 million, indicating to us that 2020 sales ran the risk of being worse than 2019 numbers.

As we continued selling tax credits for 2020, we changed the way we marketed and solicited donations for the tax credits by bringing on additional staff capacity and leveraging the health of the stock market to seek appreciated stock assets. By donating appreciated stock, donors avoid capital gains tax in addition to the claiming the state tax credit and federal charitable deduction resulting in a net benefit. Because of this change in direction, we were able to raise over \$5 million or over 60% of our total funding in December alone and sell **nearly** all the \$7.5 million dollars available to us. By the end of

December, NP was able to sell \$7,302,551 in IDA tax credit leaving only \$197,449 of unsold tax credit. This resulted in a total of just over \$8.1 million in donations made to the Initiative, dollars which will benefit savers across our state. As a reminder, the IDA Tax Credit is currently a 90% state tax credit, meaning that for every dollar that is donated, a taxpayer receives a state tax credit of ninety cents.

After the successful 2020 tax credit marketing season, and our revision of the way we market tax credits, in addition to larger contextual shifts, NP along with our IDA partners determined that the best way to ensure robust funding for the IDA Initiative was to request a renewal of the IDA tax credit for an additional 6 years. In addition to the tax credit we will also be advocating for a \$7 million General Fund allocation to maintain historic funding levels and address shortfalls in the current and next program year that have been caused by changes at the federal level.

This is why we urge you to support HB 2551A which reauthorizes the IDA tax credit and incorporates the programmatic changes to the IDA program that will allow more flexibility for IDA savers in utilizing their savings. HB 2551A also includes one change to the tax credit program, which would allow the marketing of the tax credit through April 15. This strategy has successfully been used by other tax credits, and we believe it would help ensure we're able to continue to completely utilize our allocation of tax credits every year. Tax credit needs to be renewed every six years and the IDA tax credit is set to expire on January 1, 2022 so we need the Legislature to act and renew the IDA tax credit this session through HB 2551A.

Once again, I want to say that I appreciate the work that has gone in to helping the Initiative be successful, and ask for your support in renewing this credit and passing HB 2551A. Thank you for helping us take this next critical step.



Carlos David Garcia
Executive Director, Neighborhood Partnerships