



# EXECUTIVE SUMMARY

204 N. FIRST ST., SUITE C - PO BOX 7 - SILVERTON, OR 97381 - WWW.OCPP.ORG - 503-873-1201 - FAX 503-873-1947

---

*February 21, 2003*

## **Making Ends Meet: Improving Oregon's Earned Income Credit**

By John Lewis

Both the federal government and Oregon have Earned Income Credits (EICs). The federal EIC is a tax credit for low- and moderate-income workers, primarily families with children. It is designed to offset federal Social Security, and Medicare payroll taxes, to supplement earnings from work, and to help families make the transition from welfare to work.

**The federal Earned Income Credit is significant for Oregon's economy and its low-income workers.** The federal EIC brings \$300 million to Oregon's economy and its low- and moderate-income workers. Over 12 percent of Oregon's taxpayers claimed the federal EIC in 2000 and the average claim was \$1,538.

The federal EIC recognizes that work is not enough to lift families out of poverty. By providing a refund, even if a family owes no taxes, the federal EIC helps working families to make ends meet.

**Oregon's EIC would better help working families if it were refundable.** Currently Oregon's EIC, set at five percent of the federal EIC, is only available to the extent a taxpayer has tax liability. If it were refundable, thousands of very low-income families would have additional money to make ends meet. The Legislative Revenue office estimates that a five percent refundable EIC would cost approximately \$8.3 million above the cost of the current credit in the 2003-05 biennium. Working Oregonians are not receiving \$8.3 million because the current credit is non-refundable.

**Oregon could eliminate the income tax on families in poverty by increasing the EIC.** Oregon is one of a handful of states taxing the income of families well below poverty. Families with one or two children, single or two-parent, pay income taxes even if their incomes are below 90 percent of the federal poverty guidelines. Increasing the Oregon EIC to 12 percent of the federal EIC would eliminate state income taxes on most families with one or two children living below poverty. Increasing Oregon's EIC from five percent to 12 percent, and making it refundable, would cost Oregon approximately \$45.3 million in the 2003-05 biennium.

Making the Oregon Earned Income Credit refundable, and expanding it to eliminate taxes on poor families with children, reflects Oregon's statutory goals that our tax system be based on ability to pay, and that it shield genuine subsistence income from taxation.

---