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

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**For More Information, Contact:**  
**John Lewis, 503-873-1201**  
**Charles Sheketoff, 503-873-1201**

## **Helping Working Poor Families and Oregon's Economy** **A New Report Sheds Light On Oregon's Earned Income Credit**

A new report by the Oregon Center for Public Policy shows for the first time how the economies of each county and legislative district in Oregon benefit from the federal Earned Income Credit (EIC). The report also discusses the extent to which Oregonians are missing out on the benefits of a similar state credit.

The report, *Making Ends Meet: Improving Oregon's Earned Income Credit*, uses IRS data to demonstrate how important the federal EIC is to Oregon's economy and to examine options for improving the Oregon EIC to ensure more families benefit.

"The state and federal Earned Income Credits help struggling families to pay bills and put food on the table. This is why anti-hunger advocates have made improving Oregon's EIC a high priority," said John Lewis, administrator of the Oregon Center for Public Policy and an author of the report.

The federal Earned Income Credit (EIC) is a tax credit for low- and moderate-income workers, primarily families with children. It is designed to offset federal payroll taxes and to supplement earnings from work. Families receive the federal EIC each year on their income tax returns. Even if they do not owe income taxes, families can receive the credit as a refund. The value of the federal EIC depends on family size and whether parents are married. The maximum value in tax year 2003 is \$4,204.

"The federal EIC rewards work," said Lewis. "It recognizes that work does not equal financial stability and gives a boost to working families struggling to make ends meet."

Working families in Oregon receive about \$300 million a year from the federal EIC. "That's a big help for working families, and a big boost for Oregon's economy," Lewis said. The federal EIC is one of the largest transfer payments from the federal government to Oregon. In contrast, Oregon receives only about \$169 million annually from the welfare block grant.

The report documents the flow of the \$300 million in federal EIC payments to every county and legislative district in Oregon. Statewide, almost 200,000 taxpayers (12.4 percent of all returns) claimed the federal Earned Income Credit in 2000. The average size of the credit in 2000 was \$1,538. Preliminary data for 2001 shows that the number of families helped by the EIC increased, as had the total dollars that helped Oregon's economy.

Oregon also has a state Earned Income Credit equal to just five percent of the federal credit. However, the state credit is "non-refundable." That means families can only receive the credit if they owe taxes.

The Center's report examines two ways to make the Oregon Earned Income Credit more beneficial for working Oregonians: making the credit "refundable" like the federal EIC, and

increasing the size of the credit. "Oregon's credit is important," said Lewis, "but there's tremendous room for improvement."

If the Oregon EIC were "refundable," many families would receive the full value of the credit. Under current law families with very low incomes cannot claim the full credit because they do not have enough tax liability. In Oregon about 148,000 full-year resident taxpayers claimed the state EIC (about 10.4 percent of full-year resident returns). The average EIC received was \$46. "That is only about 60 percent of what the law intended," Lewis said. "If the credit were refundable, the average state credit would have been about \$77."

The Oregon Earned Income Credit also helps raise the income level at which families must begin paying taxes and reduces the income tax burden on low-income families. "Unfortunately, the credit is so small that many families in poverty still pay taxes," said Lewis. According to the report, raising the Oregon EIC to 12 percent of the federal credit would eliminate income taxes on most one and two-child families who work but are still considered "poor."

"The majority of states with income taxes don't tax families in poverty, but Oregon does," said Lewis. Single and two-parent families with children in Oregon pay income taxes even if their incomes fall below 90 percent of the federal poverty level. The federal poverty level for a family of four in 2003 is \$18,400.

Oregon's poor taxpayers saw their tax burden increase over the course of the 1990s. From 1989 to 2002 the tax burden on Oregon's poorest 20 percent of taxpayers increased 2.2 percent while it decreased 0.4 percent for Oregon's wealthiest one percent. "Increasing Oregon's EIC will help bring some equity to Oregon's income tax structure," Lewis said.

Making Oregon's EIC refundable will cost about \$8.3 million, and expanding it to 12 percent of the federal EIC will cost about \$45.3 million, according to the Legislative Revenue Office. Lewis suggested "this would be money well spent."

"A lot of people are talking about tax cuts to spur the economy, but their focus has been on tax cuts for people who don't need financial help and who may save, not spend, the extra money," Lewis said. "Tax relief for people who are already struggling to pay bills and put food on the table goes right into the Oregon economy. These families will spend the money, and will spend it in Oregon."

Legislation is pending in the House Revenue Committee, House Bill 2031, that would expand the state EIC and make it refundable. *Making Ends Meet: Improving Oregon's Earned Income Credit* is available on the OCPP web site: [www.ocpp.org](http://www.ocpp.org).

The Oregon Center for Public Policy uses research and analysis to advance policies and practices that improve the economic and social prospects of low- and moderate income Oregonians, the majority of Oregonians.