OCPP OREGON CENTER for PUBLIC POLICY

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News Release

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Oregon's Income Taxes on Working Poor and Near Poor Among Highest in the Nation

Analysis Shows Need for Earned Income Credit Increase

(Silverton) – Working Oregonians who are poor or near-poor pay high state income taxes compared to their counterparts in other states, according to a report released today by the Washington, D.C.-based Center on Budget and Policy Priorities and the Oregon Center for Public Policy. Oregon is one of only 19 states that levy an income tax on two-parent families of four living in poverty and one of only 15 states that levy an income tax on a single-parent family of three with income at the poverty level.

"Oregon should be making work pay, not pushing poor working families deeper into poverty," said Michael Leachman, policy analyst at the Oregon Center for Public Policy (OCPP). "If you are poor or near poor and live and work in Oregon, Oregon's tax policy is undermining your opportunity to succeed," Leachman noted.

A two-parent, family of four with income at the poverty line – $20,615 – in 2006, can expect to pay about $319 in state income taxes, the fifth highest amount in the country. The same size family earning 25 percent more than poverty level wages, or $25,769, will pay about $832 in state income taxes, the third highest income taxes in the country for low-income families. The income tax on low-income families of three at 125 percent of poverty for the 2006 tax year is $511, also the third highest in the nation.

"The majority of states have concluded that taxing the income of poor, working families is counterproductive because it makes it harder for these families to avoid going hungry, escape poverty, and get ahead," said Leachman.

The public policy researcher offered a "simple solution" to the problem. "The most targeted way to eliminate income taxes on poor working families is by increasing the state Earned Income Credit. It's a simple solution to Oregon's problem," he added. Low-income working families eligible for the federal Earned Income Credit are allowed a state credit equal to five percent of the federal credit.

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The Legislative Assembly is considering two bills that would increase Oregon's Earned Income Credit from five percent of the federal Earned Income Credit to twelve percent, the level OCPP has determined is necessary to eliminate income taxes on most poor, working families with one or two children. Under HB 3023, the increase would occur in tax year 2008. HB 2398, by contrast, would phase in the increase from 2007 to 2012. Under current law, Oregon's Earned Income Credit will increase from five to six percent of the federal credit in tax year 2008.

The national report released today focuses on the income taxes paid by poor and near poor families, but states have other taxes that can disproportionately impact the poor. Sales taxes, excise taxes, and property taxes typically consume a higher proportion of the incomes of poor people than of wealthier people. In a number of states, people often pay more in consumption taxes than they do in income taxes. Nonetheless, the income taxes paid by poor and near poor families are important because changes to income tax laws can provide targeted tax relief to low-income working families and can support successful welfare-to-work efforts.

In Oregon, the poor pay more in taxes than other taxpayers as a share of their income when all local and state taxes are taken into consideration. According to a report by the Institute on Taxation and Economic Policy, Oregon's lowest income non-elderly households, those earning less than $16,000, paid 9.4 percent of their income in state and local taxes in 2002, while the most well-off non-elderly households, those earning over $308,000, paid 6.1 percent of their income in state and local taxes.

The ***Oregon Center for Public Policy*** does in-depth research and analysis on budget, tax, and economic issues. The Center's goal is to improve decision making and generate more opportunities for all Oregonians.