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## **Oregon Among Few States That Tax Income of Poor Families**

(Silverton) — Oregon is among a minority of states that tax the income of families living below the poverty line, according to a report released today by the Washington, D.C.-based Center on Budget and Policy Priorities.

For a married couple with two children in 2008, Oregon's income taxes kicked in at \$18,900, which was \$3,117 below the poverty line for a family of that size, the report said. Only eight other states imposed income taxes on four-person families with less income, while the 33 other states with income taxes allowed low-income families to earn more money before having to pay income taxes.

“When you tax the pay of poor families you make it that much harder for them to climb out of poverty. Oregon would be better off if poor families could devote more of their income toward food, child care, transportation and other basic needs,” said Joy Margheim, policy analyst with the Oregon Center for Public Policy, who examined the report.

Focusing on the 42 states (counting the District of Columbia as a state) with an income tax in 2008, the CBPP report examined not just the earnings threshold at which income taxes kicked in but also the amount of income taxes that families at various poor and near-poor income levels owed.

By that latter measure, Oregon's income tax system was also one of the least favorable for low-income families. In 2008, Oregon trailed only Alabama for the highest income tax bill for a married couple with two kids living at the federal poverty line — \$22,017 for a family of that size. Such a family owed \$311 in Oregon income taxes, said the report released by the Washington, D.C.-based Center on Budget and Policy Priorities.

Families keeping their heads just above the poverty line also face bigger income tax bills in Oregon than in most states. The report, for example, said that Oregon married couples with two children with \$27,521 in income, or 125 percent of poverty, paid \$875 in state income taxes for 2008. That amount was

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higher than the amount that comparable families pay in every other state but Kentucky.

“To double its shame, not only has Oregon set the threshold for having to start paying income taxes below where most other states begin, but once low-income families cross that threshold they face some of the highest state income taxes among low-income families nationwide,” said Margheim.

Oregon would have looked even worse in today’s report had it not increased the state’s Earned Income Tax Credit (EITC), said Margheim. In 2008, Oregon’s EITC — a refundable tax credit for low-income families who work — increased from 5 to 6 percent of the federal EITC.

A more substantial increase of the EITC would be necessary to end Oregon’s practice of taxing the work effort of poor families, said Margheim. That’s what OCPP and Oregonians for Working Families, a statewide coalition of over 90 organizations, are asking the Oregon legislature to do.

“A boost to the state’s EITC is the most efficient and targeted way for Oregon to raise the income tax threshold and end the practice of taxing the work effort of low-income families,” she said.

The national report released today focuses on the income taxes paid by low-income 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 across the country. In a number of states, though not in Oregon, people often pay more in consumption taxes than they do in income taxes.

Still, when Oregon’s overall tax structure, not just its income tax, is taken into account, it weighs more heavily on low-income families than on any other income group. According to a report released last month by OCPP, low-income households pay the highest share of their income toward all state and local taxes combined — income taxes, property taxes, excise taxes such as gasoline and cigarette taxes and fees — of any income group in the state. The wealthiest families, by contrast, pay the smallest share.

The Oregon Center for Public Policy is a non-partisan research institute that 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.