



Earned Income Tax Credit Frequently Asked Questions (FAQ)

1. What is the Earned Income Tax Credit (EITC)?

- The Earned Income Tax Credit (EITC), sometimes referred to as just the Earned Income Credit or EIC, is a refundable federal income tax credit for low-income working families with children and some low-income working individuals. Congress originally created the tax credit in 1975, in part to offset the burden of Social Security taxes and to provide an incentive to work.
- The federal EITC is calculated based on income, number of children and marital status (single or married). Most of the benefits go to families with children.
- A married-couple family of four earning between \$12,050 and \$18,750 in 2008 would receive the maximum benefit for that tax year. Some families with incomes up to about \$42,000 can qualify for at least a small EITC.
- The federal EITC lifts 4.4 million people – over half of them children – out of poverty every year. Studies have shown that low-income parents increase their workforce participation because of the federal EITC.

2. What is the Oregon Earned Income Tax Credit?

- Oregon is one of 24 states that provide an EITC as a supplement to the federal credit to raise the tax threshold for low-income working families and to provide an incentive to work.
- The Oregon EITC is calculated as a percentage of the federal EITC. Currently, the Oregon EITC is 6 percent of the federal credit, among the lowest of state EITCs.
- Nearly two-thirds of families who received Oregon's EITC in 2006, the latest year with data, earned less than \$20,000.

3. What are the benefits of improving the Oregon Earned Income Tax Credit?

- Improving the Oregon EITC will directly benefit over 200,000 households (about one in seven households) in Oregon.
- Had the Oregon credit been 18 percent in 2006 it would have increased the average credit from \$85 to \$255.
- For a family of four living at the poverty line (about \$21,000), the 2008 credit would have increased from about \$258 to about \$774.
- The state EITC helps make the tax system fairer for low-income working families. Currently, the lowest-income fifth of families pay a larger share of their income in state and local taxes than do the richest fifth of families. Increasing the Oregon EITC from 6 to 18 percent will help close that gap.

- Nearly all the value of the EITC goes to families with children. The rest goes to very low-income childless workers.
- Most EITC dollars will be spent locally in Oregon helping boost local economies. The low- and moderate-income families that receive the EITC generally spend most, if not all, of their money in the local economy.
- The expansion adds no administrative cost to an administratively inexpensive and simple program.

4. With Oregon facing tough budget choices, how much will the state EITC improvements cost, and how are we going to pay for them?

- The cost of expanding the Oregon EITC from 6 percent to 18 percent of the federal credit in the 2009-11 biennium is about \$50 million. That's less than one-half of 1 percent of projected General Fund revenues.
- State spending decisions are always a matter of priorities, and it should be a high priority to help working families during tough economic times, make our tax system fairer, and end the practice of taxing the wages of workers in poverty. Expanding the Oregon EITC meets each of these priorities and promotes shared prosperity.
- Facing the current economic crisis, the legislature is considering a variety of new revenue sources and some of the proposals are regressive, taking more from low-income families than wealthier ones. They also are considering reforming, expanding or creating new tax expenditures. Funding the improvement of the EITC should be included in any broader revenue proposal and prioritized over other, less appropriately targeted tax breaks.

5. Wouldn't adjusting the tax brackets achieve fairness for low-income families?

- No. Adjusting the tax brackets will not help the poorest working families. One plan would deliver less than one-third of its benefits to households with income below \$40,000. In contrast, all of the benefits of the EITC flow to households with incomes below \$40,000, and, because it is refundable, it helps even the poorest working families.
- The EITC is the most efficient and targeted way to make our tax system fairer for working families with children. While adjusting the tax brackets to improve the progressivity of Oregon's income tax is important, simply adjusting the tax brackets would affect all income levels, even those who do not need additional resources to make ends meet.

For more information on the campaign to increase Oregon's Earned Income Tax Credit, contact:

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