



Executive Summary

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Investing in Working Families: Improving Oregon's Earned Income Credit

by Michael Leachman

Both the federal government and Oregon have Earned Income Credits (EICs). The federal EIC is a tax credit targeted at 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 in all legislative districts. The federal EIC brought \$338 million to Oregon's economy and its low- and moderate-income workers in tax year 2002. Nearly 14 percent of Oregon's taxpayers claimed the federal EIC in 2002 and the average claim was \$1,611. The federal EIC brings an average of \$5.6 million into each state representative's district each year.

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 \$11.9 million above the cost of the current credit in the 2005-07 biennium. Working Oregonians are not receiving \$11.9 million because the current credit is non-refundable.

Oregon could eliminate the income tax on working families in poverty by increasing the EIC. Oregon is one of a handful of states that imposes an income tax on families below poverty. 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 15 percent, and making it refundable, would cost Oregon approximately \$69.2 million in the 2005-07 biennium.

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