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Oregon's Income Tax is Harsh for Low-Wage Workers

(Silverton) – Working Oregonians who are poor or low-income pay high income taxes compared to 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 levying an income tax on four-person families living below the poverty line. Oregon's income tax on families just above the poverty line is the second highest in the nation.

“The majority of states with income taxes don't tax the work effort of families with incomes below poverty,” said Michael Leachman, policy analyst at the Oregon Center for Public Policy (OCPP). “Oregon taxes the work effort of the working poor,” he added.

A two-parent working Oregon family of four with income at the poverty line in 2005 - about \$9.60 an hour in full-time work - can expect to pay about \$310 in state income taxes, the sixth highest amount in the country. The same size family earning \$12.00 an hour in 2005, a “low-income” family at about 125 percent of the federal poverty level, will pay about \$813 in state income taxes, the second highest amount in the country. Only Kentucky requires higher income taxes from a four-person low-income working family than Oregon. The income tax on low-income families of three at 125 percent of poverty for the 2005 tax year is \$498, the fourth highest in the nation.

“Oregon should not be making it harder for low-wage working families to put food on the table and keep a roof over their heads,” said Leachman.

Oregon's income tax on a family of three who worked full-time at minimum wage in 2005 is the fourth highest in the nation, as well. “Oregon voters have made clear that they want families working in minimum wage jobs to be able to meet their basic needs,” said Leachman. “The income taxes Oregon requires these families to pay undermines the voters' will.”

The research group said there is an easy fix that can help low-income families. “Expanding the state Earned Income Credit is the most targeted and effective way to lower taxes for low-income working families,” said Leachman. He noted that the slight increase in the credit that was enacted during the 2005 legislative session “was a step in the right direction, but was not enough.” The 2005 Legislative Assembly made the Oregon Earned Income Credit “refundable” beginning in tax year 2006, so that the poorest working families will receive the full value of the credit even if it exceeds their tax liability. Legislators also increased the Oregon Earned Income Credit one percent, from 5 percent of the federal Earned Income Credit to 6 percent starting in tax year 2008. The state credit would have to be about 12 percent to eliminate income taxes on three- and four-person working families living in poverty.

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The national report focuses on the income tax, but many states have other taxes that 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 those states people often pay more in consumption taxes than they do in income taxes. Nonetheless, the income taxes paid by poor families are important because changes to the income tax can provide targeted tax relief to working low-income families and can support 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*** uses research and analysis to advance policies and practices that improve the economic and social opportunities of all Oregonians.

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Note to reporters and editors:

The Center on Budget and Policy Priorities' report - and the accompanying state fact sheets - are available at www.ocpp.org. A fact sheet on Oregon taxes, by income group, from the Institute on Taxation and Economic Policy's report is available at <http://www.ocpp.org/2003/2003WhoPaysCol.pdf>.