

Will Poor, Working Families Be Roadkill?

The Jobs and Transportation Act's Regressive Tax and Fee Increases Will Set Back Low-Income Working Families With Children Unless the Legislature Enacts a Modest EITC Expansion

The legislature has sent to the Governor's desk the Jobs and Transportation Act, which will raise gasoline taxes and vehicle fees to fund important investments and repairs to Oregon's transportation infrastructure. Though the Jobs and Transportation Act was not without controversy over its components and priorities, its supporters and most of its detractors acknowledge the need for new funding to improve Oregon's transportation infrastructure.

Unfortunately, the tax and fee increases in the Jobs and Transportation Act are not based on ability to pay. The bill's funding scheme is regressive, asking more from low-income Oregonians as a share of their income than from any other group.

The regressive nature of the funding scheme adds urgency to improving Oregon's Earned Income Tax Credit. The original goal of pending EITC legislation was to improve Oregon's tax system by giving a meaningful boost to low- and moderate-income working families with children. Now that low-income households will fall victim to the tax and fee increases in the Jobs and Transportation Act, expanding the EITC is necessary to prevent low-income working families with children from falling farther behind.

If the EITC increase is made effective in 2011, when the Jobs and Transportation Act's gas tax increase goes into effect, it will not impact the upcoming budget cycle.

The Jobs and Transportation Act's Taxes and Fees Hit Low-income Families Hardest

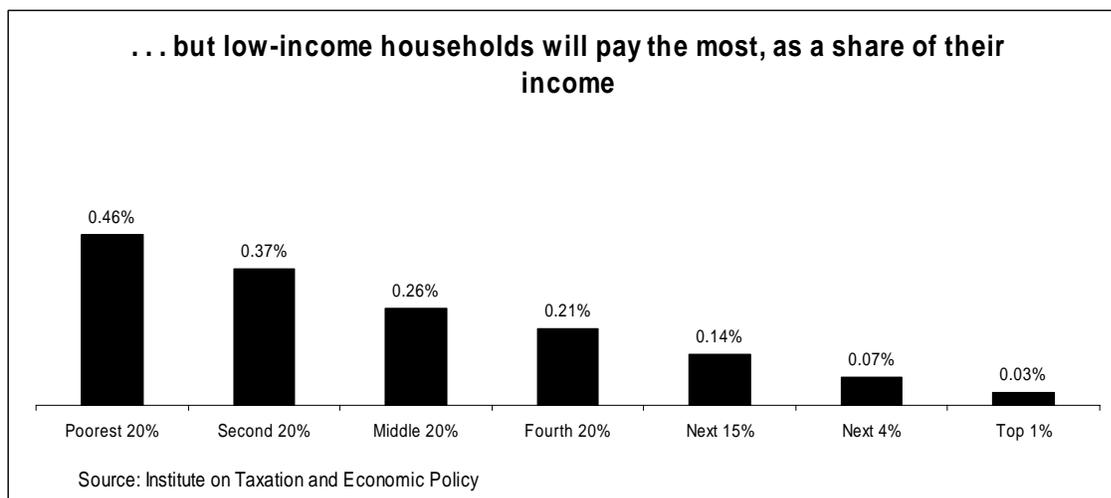
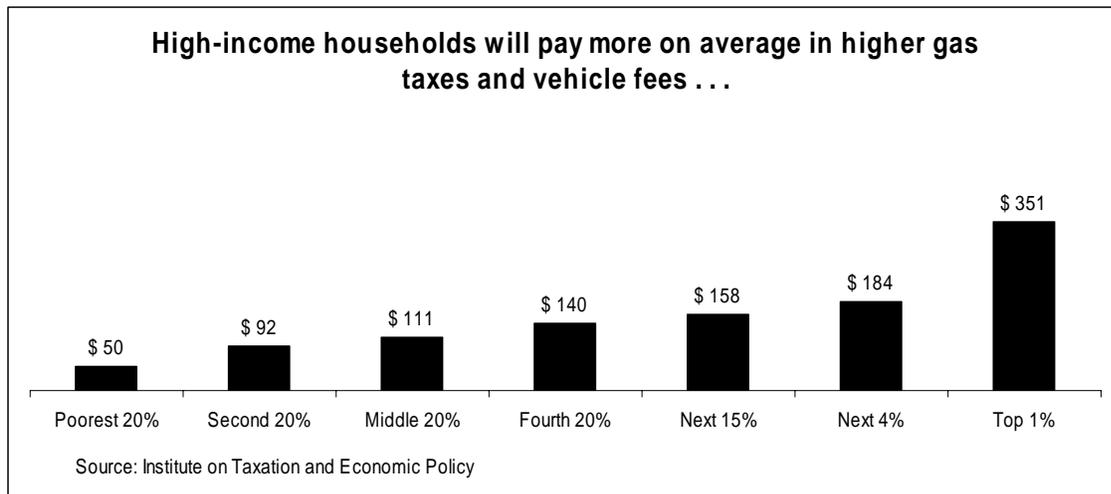
The Jobs and Transportation Act (HB 2001) will raise the gas tax and vehicle fees. The vehicle title fee will go up from \$55 to \$77, and the vehicle registration fee will increase from \$27 to \$43.¹ Other fees, including fees for license plates and driver's identification cards, will also go up. In 2011, the state gas tax will increase by six cents a gallon.²

These tax and fee increases will hit low-income families hardest. As a share of income, the additional tax and fees will cost the lowest-income fifth of Oregon households 14 times as much as they will the richest 1 percent.

On average, households in the lowest-income fifth will pay \$50 more in 2011 in higher gas tax and vehicle fees. Because the lowest-income fifth are estimated to earn less than \$18,300 in 2011, or just \$11,000 on average, that \$50 represents 0.46 percent of their income.

By contrast, consider the impact of the Jobs and Transportation Act on Oregon's most fortunate households, those in the top 1 percent of the income scale. These households will have income of at least \$398,700 in 2011 and an average income over \$1 million. The higher gas tax and vehicle fees will cost them \$351 more on average in 2011, or just 0.03 percent of their income.³ In other

words, the impact on the lowest-income fifth of taxpayers is 14 times greater than the impact on the top 1 percent of the income scale.⁴



Expanding the EITC Would Prevent Low-income Working Families With Children From Falling Farther Behind When the Jobs and Transportation Act Is Fully Implemented

Three bills (HB 2066, HB 2768 and SB 392) have been introduced that would improve Oregon’s EITC, a tax credit that helps low-income working families with children make ends meet. Each of those bills would raise the state’s credit from the current 6 percent of the federal credit to 18 percent.

When initially introduced, the EITC legislation was meant to correct some of the unfairness in Oregon’s tax system and to help poor, working families with children get ahead. Right now, Oregon is among a minority of states still taxing the incomes of the working poor. Moreover, the poorest taxpayers in Oregon pay a higher share of their income in state and local taxes than the wealthiest households.⁵ The EITC increase would end the practice of taxing the income of poor, working families with children and make the overall tax system a bit less unfair.

While those goals are still valid, an EITC increase is now needed simply to offset the regressive tax and fee increases in the Jobs and Transportation Act. To prevent families with children eligible for the EITC in the lowest-income fifth from falling farther behind, the EITC would need to increase to at least 10.2 percent of the federal credit. Thus, if enacted as proposed, an EITC increase to 18 percent would still improve Oregon's overall tax fairness. The improvement would just not be as much as originally intended because of the tax and fee increases in the Jobs and Transportation Act.

Matching Effective Dates Avoids a Revenue Impact in 2009-11

The legislature can structure the EITC improvement in a way that does not impact the budget for 2009-11. Because the tax and fee increases in the Jobs and Transportation Act will not be fully implemented until 2011, when the increased gas tax will take effect, the legislature has good cause to delay implementation of the EITC increases until that same year. Doing so would avoid a revenue impact on the upcoming biennium while addressing the economic hardship on low-income families caused by the Jobs and Transportation Act's tax and fee increases.

Conclusion

Legislation to improve Oregon's EITC began as an effort to help poor, working families with children get ahead and make the state's tax system more fair. In view of the regressive tax and fee increases in the Jobs and Transportation Act, the EITC improvement is now needed to keep Oregon's most vulnerable working families with children from falling further behind when the transportation tax and fee scheme is fully implemented. Implementing the EITC when the Jobs and Transportation Act's gas tax increase takes effect in 2011 would avoid a revenue impact in the upcoming 2009-11 budget period.

Endnotes

¹ Registration fees and title fees vary by vehicle type. These figures are for passenger vehicles. The registration fee and title fee increases take effect in October 2009.

² HB 2001-B requires that the gas tax increase go into effect on January 1, 2011, or earlier if Oregon's economy improves more quickly than expected. Specifically, the tax increase would occur prior to 2011 if before that year non-farm payroll employment increases by at least 2 percent over 12 months for two or more consecutive quarters. As of the May 2009 Oregon Economic and Revenue Forecast, job growth is not expected to meet the trigger in HB 2001-B until the fourth quarter of 2011. So the economy would have to improve much more quickly than expected for the gas tax increase to occur before January 1, 2011.

³ High-income households will pay more than other households in part because they are more likely to own businesses or shares of companies whose transportation costs will be increased by the higher gas tax and vehicle fees.

⁴ As a share of their income, the highest-income 1 percent will pay 0.0327 percent of their income in the higher gas tax and vehicle fees, while the lowest-income fifth will pay 0.457 percent of their income. Hence, the lowest-income fifth will pay 13.98 times the share of income paid by the highest-income 1 percent.

⁵ In 2008, Oregon taxpayers in the lowest-income fifth paid 9.2 percent of their income in state and local taxes, while the highest-income 1 percent paid just 6.7 percent. For more details, see Oregon Center for Public Policy, "Oregon State and Local Taxes in 2008," available at www.ocpp.org/resources/2008WhoPays20080424.pdf.

This work is made possible in part by the support of the Ford Foundation, the Governance and Public Policy Program of the Open Society Institute, the Stoneman Family Foundation, the Oregon Education Association, the Oregon School Employees Association, SEIU 503 and by the generous support of organizations and individuals.

The Oregon Center for Public Policy is a part of the State Fiscal Analysis Initiative (SFAI) and the Economic Analysis and Research Network (EARN).
