

## Oregon Income Taxes Reach into Poverty

Because income taxes are a major component of most state tax systems, their design impacts overall fairness. Among the 42 states with an income tax, most do not tax the work effort of the poor. Oregon is one that does, and its income tax bill for families at or near the poverty line is one of the heaviest of any state.<sup>1</sup>

It's true that Oregon does not — unlike most states — levy a general sales tax, which typically consumes a higher proportion of the income of poor families than that of wealthier households. Yet it's also true that Oregonians pay property and excise taxes (such as gasoline and tobacco taxes) that fall disproportionately on the poor. This makes Oregon's combined state and local tax system regressive, with lower income households paying a greater share of their income toward state and local taxes than the wealthiest households pay.<sup>2</sup>

Lawmakers can address the problem of taxing the work effort of the poor in a targeted fashion by increasing Oregon's earned income tax credit.

Oregon's 2011 income tax kicks in below the poverty line			
Family size	Income level at which income tax kicks in	Relationship to poverty line	Rank <sup>3</sup>
single-parent families of three	\$17,000	\$922 below the poverty line	10
two-parent families of four	\$20,200	\$2,818 below the poverty line	11

Oregon's 2011 income tax on working poor and near-poor families is high			
Family size	Income level	Income tax	Rank
single-parent families of three	at the poverty line (\$17,922)	\$80	8
two-parent families of four	at the poverty line (\$23,018)	\$274	4
single-parent families of three	at 125% of poverty line (\$22,403)	\$527	7
two-parent families of four	at 125% of poverty line (\$28,733)	\$869	3

### Boost Oregon's EITC to target a tax cut for poor, working families with children

Though efficient and well-targeted, Oregon's Earned Income Tax Credit (EITC) is too small to prevent an income tax on the work effort of the poor. At 6 percent of the federal EITC, Oregon's EITC is one of the smallest among states that offer a credit.

A meaningful boost to the Oregon EITC would protect poor, working families with children from having to pay income taxes, and would put Oregon in the majority of states that do not tax the work effort of the working poor.

<sup>1</sup> Source: Oliff, Phil, Chris Mai and Nicholas Johnson, Center on Budget and Policy Priorities, *The Impact of State Income Taxes on Low-Income Families in 2011*, April 4, 2012, available at <http://www.cbpp.org/cms/index.cfm?fa=view&id=3740>.

<sup>2</sup> Institute on Taxation & Economic Policy, *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*, 3<sup>rd</sup> edition, November 2009, pp. 90-91, available at <http://www.itepnet.org/whopays3.pdf>.

<sup>3</sup> Rankings are among the 42 states, including the District of Columbia, that levy an income tax.