

### Boosting Oregon's EITC Provides a Great Return on Investment

Increasing the Oregon Earned Income Tax Credit (EITC), as HB 3028 proposes, not only helps struggling working families, but also has large, long-term benefits for the state.

#### The EITC boosts living standards of struggling families

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- The average federal credit for Oregon households with children is \$2,900.<sup>1</sup>
- The credit reduces the overall poverty rate by at least 10 percent; the child poverty rate by 16 percent.<sup>2</sup>

#### The EITC incentivizes work

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- In the 1990s, the credit increased employment among single mothers by 6 to 7%.<sup>3</sup>
- A \$1,000 increase in the EITC leads to a 7.3 percentage point increase in employment.<sup>4</sup>
- Workers with less education see the greatest increases in employment.<sup>5</sup>

#### The EITC helps children succeed

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- It improves birth outcomes — fewer low-weight births, especially for Black mothers.<sup>6</sup>
- It helps prevent child abuse.<sup>7</sup>
- Children perform better in school, and are more likely to finish high school and attend college.<sup>8</sup>
- Children earn more as adults: a \$3,000 yearly tax benefit results in 17% higher earnings when the child becomes an adult.<sup>9</sup>

#### The EITC reduces state costs and generates additional revenue

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- An EITC boost of \$350 results in an average decrease of \$128 in state TANF costs.<sup>10</sup>
- It reduces criminal justice costs — for example, it results in an 11% lower recidivism among women.<sup>11</sup>
- It increases taxes paid by businesses and their employees through induced economic effects.<sup>12</sup>

#### The EITC supports the economy

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- The federal EITC brings in more than \$612 million per year to Oregon.<sup>13</sup>
- Rural legislative districts disproportionately benefit from the EITC.<sup>14</sup>
- It induces \$1.40 to \$1.58 in economic activity for every \$1 spent on the EITC.<sup>15</sup>

## Endnotes

- <sup>1</sup> Data on use of the federal EITC in Oregon for tax year 2016 sent to OCPP by Mark Beilby, Oregon Department of Revenue, November 14, 2018.
- <sup>2</sup> Bruce D. Meyer, "The Effects of the Earned Income Tax Credit and Recent Reforms," Chapter 5, *Tax Policy and the Economy*, National Bureau of Economic Research, August 2010, Vol. 24, p. 159, available at <https://www.nber.org/chapters/c11973.pdf>. Also, Hilary W. Hoynes, Ankur J. Patel, *Effective Policy for Reducing Inequality? The Earned Income Tax Credit and the Distribution of Income*, NBER Working Paper No. 21340, July 2015, pp. 22-28, available at <https://www.nber.org/papers/w21340.pdf>.
- <sup>3</sup> Jacob Bastian, *The Rise of Working Mothers and the 1975 Earned Income Tax Credit*, University of Michigan, April 2016, available at <https://www.sole-jole.org/16385.pdf>. Also, Jeffrey Grogger, "The Effects of Time Limits and Other Policy Changes on Welfare Use, Work, and Income Among Female-Headed Families," Working Paper, NBER, March 2001, pp. 18-19, available at <https://www.nber.org/papers/w8153.pdf>.
- <sup>4</sup> Reference group is single mothers, 1984-1999. Op. Cit., Hilary W. Hoynes, Ankur J. Patel, 2015.
- <sup>5</sup> Jacob E. Bastian, Maggie R. Jones, *Do EITC Expansions Pay for Themselves? Effects on Tax Revenue and Public Assistance Spending*, University of Chicago, December 19, 2018, p. 12-13, available at <https://drive.google.com/file/d/1GbBeeQzfGH9fF9Y1u5rS55Sn3eStBWE7/view>.
- <sup>6</sup> An increase in EITC of \$1,000 is associated with 6.7 to 10.8 percent reduction in the rate of low births, with larger impacts for African American mothers. Hilary W. Hoynes, Douglas L. Miller, David Simon, *Income, The Earned Income Tax Credit, and Infant Health*, NBER Working Paper No. 18206, July 2012, available at <https://www.nber.org/papers/w18206.pdf>.
- <sup>7</sup> Refundable EITC associated with a decrease of 3.1 abusive head trauma admissions per 100,000 population in young children. Joanne Klevens, Brian Schmidt, Feijun Luo, *Effect of the Earned Income Tax Credit on Hospital Admissions for Pediatric Abusive Head Trauma, 1995-2013*, Public Health Reports, July 13, 2017, available at <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5507428/>.
- <sup>8</sup> "An increase in the maximum EITC of \$1,000 .... significantly increases math achievement by about 0.072 nationally normed standard deviations[,] .... also increases the probability of graduating high school or receiving a GED at age 19 by about 2.1 percentage points and increases the probability of completing one or more years of college by age 19 by about 1.4 percentage points. Michelle Maxfield, *The Effects of the Earned Income Tax Credit on Child Achievement and Long-term Educational Attainment*, Michigan State University Job Market Paper, November 14, 2013, available at <https://msu.edu/~maxfiel7/20131114%20Maxfield%20EITC%20Child%20Education.pdf>. Also, Dayannand S. Manoli, Nicholas Turner, *Cash-on-hand and College Enrollment: Evidence From Population Tax Data and Policy Nonlinearities*, NBER Working Paper No. 19836, January 2014, available at <https://www.nber.org/papers/w19836.pdf>. Also, Jacob Bastian, Katherine Michelmore, *The Long-Term Impact of the Earned Income Tax Credit on Children's Education and Employment Outcomes*, Journal of Labor Economics, 2018, Vol. 36, No. 4, available at [https://drive.google.com/file/d/0B4jTC3zaouX\\_WI9RaU95cHJpZE0/view](https://drive.google.com/file/d/0B4jTC3zaouX_WI9RaU95cHJpZE0/view).
- <sup>9</sup> "The paper says 19 percent, but our calculations, confirmed by one of the authors, show that this is a typographical error and 17 percent is correct," according to Center on Budget and Policy Priorities, in reference to Greg J. Duncan, Kathleen M. Ziol-Guest, Ariel Kalil, *Early-Childhood Poverty and Adult Attainment, Behavior, and Health*, Child Development, Vol. 81, No.1 January/February 2010, pp. 306-325, available at [https://www.jstor.org/stable/40598980?seq=1#page\\_scan\\_tab\\_contents](https://www.jstor.org/stable/40598980?seq=1#page_scan_tab_contents).
- <sup>10</sup> A \$1,000 increase in the maximum federal EITC results in a \$350 increase in the average EITC credit and reduction of \$127.80 in state welfare costs in states that have ever had a state EITC. Op. Cit., Jacob E. Bastian, Maggie R. Jones, 2018, pp. 17, 42.
- <sup>11</sup> States instituting an EITC have 11% lower recidivism rates among women, who tend to have dependent children and higher refunds than men. Amanda & Agan, Michael D. Makowsky, *The Minimum Wage, EITC, and Criminal Recidivism*, NBER Working Paper 25116, September 2018, p. 15, available at <https://www.nber.org/papers/w25116.pdf>.
- <sup>12</sup> *The Importance of the Earned Income Tax Credit and Its Economic Effects in Baltimore City*, The Jacob France Institute, June 2004, available at <https://www.ubalt.edu/jfi/jfi/reports/EITC-rept.pdf>.
- <sup>13</sup> Oregon Department of Revenue data for 2016 tax year.
- <sup>14</sup> Rural Oregon legislative districts are defined as those not containing a Metropolitan Statistical Area, which include House Districts 1, 4, 5, 10, 17, 23, 53, 55, 56, 57, 58, 59, and 60. OCPP analysis of IRS and Tax Policy Center data, available at <https://www.ocpp.org/media/uploads/pdf/2019/02/20190216-EITC-House-fnl.pdf>.
- <sup>15</sup> OCPP analysis of findings: Antonio Avalos, Sean Alley, *The Economic Impact of the Earned Income Tax Credit (EITC) in California*, The California Journal of Politics & Policy, 2010, Vol. 2, Issue 1, available at <https://escholarship.org/uc/item/2jj0s1dn>. Also, Matthew Soursourian, *The Earned Income Tax Credit in the 12<sup>th</sup> District*, Community Development Research Brief, Federal Reserve Bank of San Francisco, May 2011, available at <https://www.frbsf.org/community-development/files/earned-income-tax-credit-in-the-12th-district.pdf>.