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Executive Summary
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Working, Poor, and Taxed:
Improving Oregon's Earned Income Credit

by Michael Leachman

Families in Oregon who work but whose wages do not allow them to escape poverty continue to pay income taxes. Oregon is one of a minority of states that levies income taxes on working families in poverty. The most targeted way to eliminate income taxes on poor working families is to expand Oregon's Earned Income Credit (EIC).

The federal Earned Income Credit is significant for Oregon's economy and its low-income workers in all legislative districts.

- For the 2004 tax year, the federal EIC returned to Oregon $359 million, producing a sizable impact on community economies across the state. The federal EIC brings an average of $6 million into each state representative's district each year.

Oregon could eliminate the income tax on working families in poverty by increasing the state Earned Income Credit to 12 percent.

- 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 the poverty line. Currently, Oregon's EIC equals five percent of the federal EIC.

- In 2005, the Legislature enacted Senate Bill 31, which made Oregon's EIC refundable, but only from the 2006 tax year through the 2010 tax year. SB31 also set Oregon's EIC to increase to six percent of the federal credit in the 2008 tax year. Even after the increase, Oregon's EIC will remain one of the smallest in the nation among states with EICs.

- Two bills introduced during the 2007 legislative session would make Oregon's EIC permanently refundable and increase it to 12 percent of the federal EIC. Under HB 3023, taxpayers would receive the larger credit beginning in tax year 2008. Under HB 2398, the increase would be phased-in over six years, from 2007 to 2012.

- The OCPP estimates the cost of increasing the state Earned Income Credit to 12 percent of the federal EIC beginning in tax year 2008 – as HB 3023 proposes – at $22 million in 2007-09 and $45 million in 2009-11. For the phased-in increase proposed in HB 2398, OCPP estimates the 2007-09 cost at $16 million and the 2009-11 cost at $29 million. The Legislative Revenue Office (LRO) preliminarily estimates somewhat higher costs for both bills because LRO assumes EIC recipients will change their weekly wage withholding to receive the approximate $2 increase that the EIC expansion will provide.

- Improving the Earned Income Credit to eliminate income taxes on poor families with children, reflects Oregon's statutory goals that our tax system be based on "ability to pay," and "shield[ ] genuine subsistence income from taxation."