OREGON CENTER FOR PUBLIC POLICY

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Executive Summary

February 25, 2005

Investing in Working Families:
Improving Oregon's Earned Income Credit

by Michael Leachman

Both the federal government and Oregon have Earned Income Credits (EICs). The federal EIC is a tax credit targeted at low- and moderate-income workers, primarily families with children. It is designed to offset federal Social Security, and Medicare payroll taxes, to supplement earnings from work, and to help families make the transition from welfare to work.

The federal Earned Income Credit is significant for Oregon's economy and its low-income workers in all legislative districts. The federal EIC brought $338 million to Oregon's economy and its low- and moderate-income workers in tax year 2002. Nearly 14 percent of Oregon's taxpayers claimed the federal EIC in 2002 and the average claim was $1,611. The federal EIC brings an average of $5.6 million into each state representative's district each year.

The federal EIC recognizes that work is not enough to lift families out of poverty. By providing a refund, even if a family owes no taxes, the federal EIC helps working families to make ends meet.

Oregon's EIC would better help working families if it were refundable. Currently Oregon's EIC, set at five percent of the federal EIC, is only available to the extent a taxpayer has tax liability. If it were refundable, thousands of very low-income families would have additional money to make ends meet. The Legislative Revenue Office estimates that a five percent refundable EIC would cost approximately $11.9 million above the cost of the current credit in the 2005-07 biennium. Working Oregonians are not receiving $11.9 million because the current credit is non-refundable.

Oregon could eliminate the income tax on working families in poverty by increasing the EIC. Oregon is one of a handful of states that imposes an income tax on families below poverty. 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 poverty. Increasing Oregon's EIC from five percent to 15 percent, and making it refundable, would cost Oregon approximately $69.2 million in the 2005-07 biennium.

Making the Oregon Earned Income Credit refundable, and expanding it to eliminate income taxes on working poor families with children, would reflect Oregon's statutory goals that our tax system be based on "ability to pay," and that it "shields genuine subsistence income from taxation."

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The federal Earned Income Credit (EIC) is a refundable tax credit targeted at low- and moderate- income workers, primarily families with children. It is designed to help offset federal Social Security and Medicare payroll taxes, to supplement earnings from work, and to help families make the transition from welfare to work. Congress created the credit in 1975 and it has since been expanded significantly. The EIC has been popular across the political spectrum; President Ronald Reagan referred to it as the best anti-poverty measure to come out of Congress, and in 1993 President Bill Clinton signed the largest expansion of the EIC in its history.T[1]

The federal EIC recognizes that work is not enough to lift families out of poverty. It acknowledges that poor families work and working families are poor. In 2002-03, during the economic downturn, there were 61,200 able-bodied poor families with children in Oregon, and 72 percent of these families worked at least part of the previous year, despite the difficulty of finding and maintaining work in a period of high unemployment. In 2000-01, before the economic downturn fully took hold, 89 percent of able-bodied poor families with children worked during some part of the year.[2]

The need for the EIC has grown over the last 30 years. Since the late 1970s, the poverty rate among working families with children in Oregon has nearly doubled. In 2002-03, 9.5 percent of working families with children were poor, despite their work effort.[3]

In 1997, the Oregon Legislature created the Oregon Earned Income Credit (Oregon EIC). Like other states, the Legislature chose to link Oregon's credit to the structure of the federal Earned Income Credit. They set the Oregon EIC equal to five percent of the federal credit. Unlike the federal credit, however, the state credit is non-refundable; filers may only claim the credit on taxes owed.

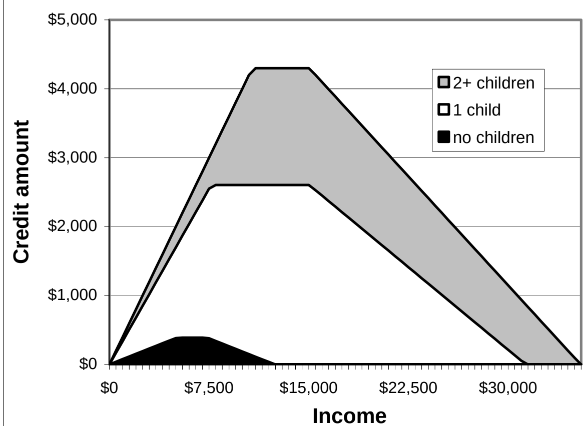
Two bills introduced during the 2005 legislative session would change the value of the Oregon EIC. Senate Bill 382 contains multiple changes to Oregon's tax system, including making the Oregon EIC refundable and increasing its size from 5 percent of the federal credit to 25 percent. House Bill 2046 would make the EIC refundable and changes its size relative to the federal EIC. The actual size is left to be decided through the legislative process, but presumably would be larger than the current 5 percent EIC.

This paper discusses the value of the federal and state EICs in Oregon and explores two options for improving the state credit: making it refundable and increasing the rate to a level that would eliminate income taxes for most poor families with children.

The federal Earned Income Credit explained

The value of the federal EIC depends on the eligible family's earnings and on the number of children.

Figure 1. Federal EITC, Tax Year 2004



Source: IRS, Center on Budget & Policy Priorities. Married couples filing jointly.

The value of the federal EIC depends on the eligible family's earnings and on the number of children. For families with very low incomes, the value of the credit rises with earnings. When earnings reach a certain point, the value of the credit plateaus, ultimately falling to zero at the maximum earnings level.

For unmarried families, the maximum earnings level and the highest earnings level to receive the maximum credit are $1,000 less than the limits for married families.

Table 1. Federal EIC, tax year 2004

	Number of Children		
	0	**1**	**2+**
Families receive the maximum federal EIC when income reaches:	$5,100	$7,660	$10,750
Married			
Families receive the maximum federal credit until income is over:	$7,390	$15,040	$15,040
Maximum income to receive EIC:	$12,490	$31,338	$35,458
Unmarried			
Families receive the maximum federal credit until income is over:	$6,390	$14,040	$14,040
Maximum income to receive EIC:	$11,490	$30,338	$34,458
Maximum federal EIC:	**$390**	**$2,604**	**$4,300**
Maximum Oregon EIC:	$20	$130	$215

Source: IRS

For a family with two children (two parents, married filing jointly) the federal credit in tax year 2004 increases from $0 at no earnings to $4,300 with earnings of $10,750. It stays at that level until earnings reach $15,040, then the value of the credit decreases gradually to zero when earnings reach $35,458 (Figure 1). For unmarried families, the maximum earnings level and the highest earnings level to receive the maximum credit are $1,000 less than the limits for married families (Table 1).[4] In tax year 2005, the gap in limits between married and unmarried families will increase to $2,000. In 2008, the gap will increase again to $3,000.

The federal EIC helps the lowest-income families

The federal Earned Income Credit is a *refundable* credit. If a family owes no income taxes, or owes less in income taxes than the credit is worth, the family will still receive the full credit. Take for example, Anna Mae, a single mother with one child. Anna Mae earns $25,000 in 2004. Anna Mae is eligible for a federal EIC of $849 and she owes $241 in federal income taxes. The EIC reduces her tax bill to zero *and* she will receive the remaining $608 credit as a refund.

The Oregon EIC does not fully help the lowest-income families

The state credit follows the same income guidelines and the same eligibility rules as the federal credit. However, there are two key differences: the value of the state credit is equal to five percent of the federal credit (Table 1), and the state EIC is *non-refundable*. The value of the state EIC is subtracted from the taxpayer's tax liability and, if the credit is greater than the liability, the taxpayer loses any remaining credit. For example, if Anna Mae earns only $9,000 in 2004, she would be eligible for a state EIC of $130 (five percent of the federal EIC). However, because she only owes $32 in state income taxes, she loses $98 of the Oregon EIC's value. In other words, the lowest-income Oregonians do not receive the full value of the state EIC because it is non-refundable.

Based on federal EIC claims, the average Oregon EIC in 2002 would have been $81 if Oregon's EIC were refundable and if it were claimed by all households claiming the federal EIC. The average actual tax benefit from the credit was just $49 (Table 2).[5]

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Table 2. State and federal tax credits in Oregon, tax years 1999-2002

	Tax Year			
Federal Earned Income Credit	**1999**	**2000**	**2001**	**2002**
TOTAL Fed. Returns	**1,488,100**	**1,525,409**	**1,524,213**	**1,507,348**
Claims	184,807	185,140	192,615	209,603
Amount (thousands)	$285,613	$287,417	$302,232	$337,734
Average Credit	$1,545	$1,552	$1,569	$1,611
Percent of returns	12.4%	12.1%	12.6%	13.9%
Oregon Earned Income Credit				
TOTAL State Returns	**1,414,966**	**1,435,203**	**1,434,684**	**1,432,971**
Claims	148,775	148,106	150,190	166,472
Percent of returns	10.5%	10.3%	10.5%	11.6%
Amount (thousands)	$9,771	$9,766	$10,038	$11,325
Average tax benefit	$46	$46	$48	$49
Avg. benefit if refundable & fully utilized	$77	$78	$78	$81

Note: Full-year Oregon resident returns only, representing about 90% of all returns. State source: Oregon Department of Revenue, "Oregon Personal Income Tax Annual Statistics," tax years 1999-2002. Federal source: IRS data compiled by The Brookings Institution, and available at http://apps89.brookings.edu:89/EITC/eitc.jsp.

The EIC helps Oregon's economy

The federal EIC is important for over 200,000 low- and moderate-income families in Oregon – about one out of seven taxpaying families. Studies show that these families primarily spend their EIC refunds on bills, rent, utilities, groceries, and other commodities.[6] Hence, much of the EIC is recycled through Oregon communities, substantially enhancing the local economy. For the 2002 tax year, the federal EIC returned to Oregon $338 million, producing a sizable impact on community economies across the state.[7]

For the 2002 tax year, 209,603 taxpayers in Oregon claimed the federal Earned Income Credit for an average credit of $1,611 (Table 2). The number of taxpayers claiming the credit fell by nearly 5 percent from tax years 1997 to 2000, probably because lower-income workers were beginning to see the effects of Oregon's booming economy. Then, from tax years 2000 to 2002, the number of taxpayers filing for the EIC rose 13 percent as the economy slipped into a downturn.[8]

Every Oregon County Benefits from the EIC

Taxpayers in every county in Oregon receive the federal EIC. In 2002, in all but three Oregon counties, at least 10 percent of tax filers claimed the federal EIC.[9]

Data by legislative district is found in the appendix.

Table 3: Federal Tax Returns Claiming the Earned Income Tax Credit in Oregon; Dollars Returned to County Economies, Tax Year 2002

County	Total Returns	Returns Claiming EIC	Percent Claiming EIC	Total Federal EIC $ for County
Oregon	**1,507,348**	**209,603**	**13.9%**	**$337,733,965**
Baker	6,722	1,264	18.8%	$2,050,174
Benton	31,498	2,915	9.3%	$3,985,091
Clackamas	146,165	14,229	9.7%	$22,250,891
Clatsop	15,092	2,254	14.9%	$3,626,674
Columbia	19,619	2,262	11.5%	$3,588,891
Coos	25,372	4,428	17.5%	$7,487,197
Crook	7,685	1,287	16.7%	$2,042,629
Curry	10,062	1,559	15.5%	$2,465,914
Deschutes	60,018	8,301	13.8%	$13,250,585
Douglas	42,820	7,417	17.3%	$12,460,107
Gilliam	820	104	12.7%	$187,675
Grant	3,134	524	16.7%	$885,423
Harney	2,997	626	20.9%	$1,070,920
Hood River	8,958	1,614	18.0%	$2,875,323
Jackson	82,033	13,697	16.7%	$22,496,630
Jefferson	6,360	1,664	26.2%	$3,041,141
Josephine	32,465	6,332	19.5%	$10,396,147
Klamath	25,777	5,082	19.7%	$8,679,131
Lake	3,092	551	17.8%	$891,558
Lane	143,897	20,782	14.4%	$31,352,369
Lincoln	19,361	3,202	16.5%	$5,172,006
Linn	36,464	5,171	14.2%	$8,425,952
Malheur	10,477	2,543	24.3%	$4,714,944
Marion	118,993	19,775	16.6%	$34,427,505
Morrow	4,125	774	18.8%	$1,382,432
Multnomah	309,491	41,480	13.4%	$62,129,755
Polk	25,759	3,385	13.1%	$5,632,269
Sherman	809	119	14.7%	$189,900
Tillamook	10,772	1,665	15.5%	$2,678,816
Umatilla	28,154	5,500	19.5%	$9,874,994
Union	10,613	1,691	15.9%	$2,715,397
Wallowa	3,241	517	16.0%	$738,137
Wasco	9,630	1,696	17.6%	$2,944,477
Washington	209,648	20,066	9.6%	$32,546,463
Wheeler	591	94	15.9%	$135,715
Yamhill	34,634	5,033	14.5%	$8,940,733

Source: OCPP analysis of IRS data compiled by The Brookings Institution. Data available at http://apps89.brookings.edu:89/EITC/eitc.jsp

In three-quarters of Oregon counties (28 out of 36), the percentage of filers who claimed the EIC was above the statewide average of 13.9 percent (Table 3).

Jefferson County, home to the Confederated Tribes of Warm Springs Reservation, has the highest EIC claim rate; over one-fourth (26 percent) of tax filers claimed the federal Earned Income Credit in 2002, while Benton County had the lowest participation rate: 9.3 percent of taxpayers (about one out of 11) receive the federal EIC.

The federal EIC provides a significant economic boost to Oregon's communities. The $338 million it brings in annually is one of the biggest federal transfer payments to the state. By contrast, federal support for Oregon's primary welfare program – the Temporary Assistance for Needy Families program – totaled about $184 million in federal fiscal year 2003.[10]

The economic benefits of the EIC are distributed among every Oregon county. For example, 2,543 taxpayer families in Malheur County (24 percent of the taxpayers) received an average EIC of $1,854 in 2002. Thus, the federal Earned Income Credit returned approximately $4.7 million to Malheur County's economy and working families through reduced taxes and refunds. Multnomah County's economy and its low-income workers received approximately $62 million from the federal Earned Income Credit in 2002 (Table 3).

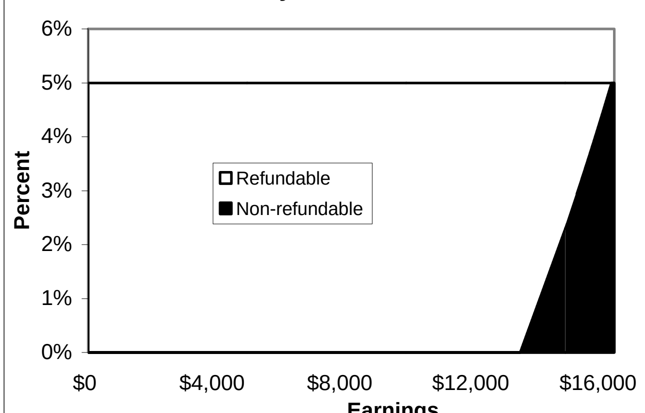
Because Oregon's counties vary by population, the amount of EIC money flowing into each county also varies. Disparities by state legislative district, by contrast, are not so wide. In the average House district, about 3,500 households claim the EIC, returning about $5.6 million each year to the district. Since each state Senate district consists of two House districts, the value returned to each Senate district on average is more than $11 million each year (see Appendix).

Improving the state EIC: Refundability

The Earned Income Credit is designed to provide tax relief and income support to lower income families who work. Unfortunately, because the state EIC is non-refundable – the credit is available only to the extent of tax liability – families with very low incomes are either denied the full credit or unable to take the credit at all.

A two-parent, two-child family does not derive any value from the state EIC until their earnings reach about $13,560. Even then the family cannot take advantage of the full five percent credit until they earn about $16,430, which is more than full-time work at the minimum wage (Figure 2). A two-parent, two-child family, with one full-time minimum wage earner will receive a state EIC equal to about 1.8 percent of the federal EIC.

Figure 2. Oregon EIC: Percent of credit actually taken vs. a 5% refundable credit, tax year 2004



Source: Oregon Center for Public Policy. 2-parent, 2-child family.

A two-parent, two-child family does not derive any value from the state EIC until their earnings reach about $13,560. Even then the family cannot take advantage of the full five percent credit until they earn about $16,430.

A single-parent family, working full-time (2080 hours per year) and earning the 2004 minimum wage of $7.05, earned an annual income of $14,664 and likely will take full advantage of the state EIC (as Figure 2 demonstrates, a two-parent family at that income would not). However, not all families work the entire year or have a full-time job. A family may have just left welfare or may be reentering the work force. A family may only have access to seasonal jobs such as farm work.

A single parent with two children who earned a full-time minimum wage for only nine months (about $10,998) in 2004 is *eligible* for the maximum state EIC of $215. That parent's tax liability is only $19. Under current law the parent will *lose* the $196 that was not used to offset her tax liability. If the state EIC were refundable, that parent would have an extra $196 to help make ends meet. Without a refundable EIC, those most in need, workers at the lowest income levels, do not receive the full benefits of the credit.

Based on federal EIC claims, the average Oregon EIC should have been nearly $81, but because the credit is non-refundable and perhaps also because the credit is underused, the average actual tax benefit from the credit in 2002 was just $49 (Table 2).[11] In 2002, only 166,472 Oregon taxpayers, or about 79 percent of the number who claimed the federal credit, claimed the state EIC.

The Oregon Legislative Assembly has previously recognized the need for refundable credits for low-income families. The bill creating the Oregon Earned Income Credit in 1997 (Senate Bill 388) included a refundability provision when the Oregon Senate endorsed it. The Oregon House of Representatives subsequently removed the provision. In 2001, the Legislature made the Working Family Child Care Credit refundable beginning in 2003 (House Bill 2716).[12] That credit provides relief from childcare costs for families with incomes up to 250 percent of poverty.

A refundable credit is good for Oregon's economy

As an added benefit, making Oregon's Earned Income Credit refundable would help keep Oregon in compliance with the "maintenance-of-effort" (MOE) requirement in the Temporary Assistance for Needy Families (TANF) block grant. Under TANF block grant rules, states must meet a minimum spending level for needy families, called a "maintenance-of-effort," in order to receive the state TANF block grant. Oregon barely has been able to meet its MOE requirement. In 1999, the U.S. Department of Health and Human Services issued rules allowing states to count the *refundable portion* of an EIC toward maintenance-of-effort requirements.[13]

Making the EIC refundable would be better than a "carry forward" provision

The Oregon Legislative Assembly has recognized that many tax credits exceed the liability of eligible taxpayers. Often, legislators have provided for a "carry forward" provision where credits that exceed tax liability can be used in later tax years when the taxpayer has increased tax liability, fewer costs related to the credit, or both. Examples are the Child and Dependent Care Credit and most business tax credits, like the Pollution Control Tax Credit. Such a provision is not appropriate for low-income tax credits like the Oregon EIC for four reasons:

- A carry forward provides no help to Oregon's welfare maintenance-of-effort requirement; only a refundable credit can do that.
- It places an additional record-keeping burden on low-income taxpayers who generally do not use accountants who can track the carry forward in future years.
- It is more prone to taxpayer errors.
- It does not provide immediate tax relief, but instead defers it until the taxpayer has more income and thus more tax liability. If income does not increase substantially, the carry forward is never used completely.

Improving the state EIC:
Eliminating the income tax for working poor families

The majority of the 42 states with income taxes (including the District of Columbia) do not levy income taxes on families in poverty. As of tax year 2003, only 16 states continued to tax single parent families of three below the poverty level and only 18 states continued to tax two-parent families of four living in poverty.[14] Despite the state's Earned Income Credit, which does raise the tax threshold and decreases slightly the share of low-income families' income going to income taxes, Oregon remains among those states taxing families in poverty (Table 5). For the 2004 tax year, Oregon is levying an income tax on two-parent, two-child families with incomes as low as about 87 percent of the federal poverty guidelines, and families with one child with incomes as low as about 85 percent of poverty. Single-parent families with one child will pay income taxes with incomes as low as about 84 percent of the federal poverty level.[15]

Oregon remains among those states taxing families in poverty.

Table 5. Oregon income tax bills, by household incomes as a percent of poverty, tax year 2004

	80%	90%	100%	110%
2 parents/2 children				
Income	$15,080	$16,965	$18,850	$20,735
Tax	$0	$55	$244	$434
2 parents/1 child				
Income	$12,536	$14,103	$15,670	$17,237
Tax	$0	$59	$174	$312
1 parent/2 children				
Income	$12,536	$14,103	$15,670	$17,237
Tax	$0	$22	$148	$304
1 parent/1 child				
Income	$9,992	$11,241	$12,490	$13,739
Tax	$0	$57	$144	$232

Source: Oregon Center for Public Policy

Reducing income taxes on working poor families encourages work and helps move families off public assistance by improving self-sufficiency and "making work pay." Eliminating income taxes for low-income, working families helps to offset high work-related taxes and expenses, such as gas taxes, that families incur as they work to become self-sufficient. Excise taxes like the gas tax hit low-income households almost 30 times harder than they hit the wealthiest households. The poorest fifth of Oregon taxpayers pay on average 2.9 percent of their income in excise taxes such as the gas tax. By contrast, the wealthiest one percent of taxpayers pay on average just one-tenth of one percent (0.1 percent) of their income in excise taxes.[16]

Increasing the EIC to 12 percent of the Federal EIC would eliminate state income taxes for most poor, working families with one or two children (Table 6).[17] To eliminate state income taxes for a single parent with one child earning a full-time, minimum wage income, Oregon's EIC would need to be set at about 17 percent. Raising the EIC without making it refundable would increase the number of families losing a portion of the credit, and increase the amount lost by the lowest-income families.

Refundability, coupled with expansion, would help to reverse Oregon's trend of increasing taxes for low-income households, as a share of their income. From 1989 to 2002, the share of low-income families' income in Oregon going to state and local taxes grew 2.2 percent, while it shrank by 0.4 percent for the highest income one percent.[18]

To eliminate state income taxes for a single parent with one child earning a full- time, minimum wage income, Oregon's EIC would need to be set at about 17 percent.

Table 6. At what level would Oregon need to set the EIC to eliminate taxes on families with children living in poverty? (tax year 2004)

	2 parents 2 children	2 parents 1 child	1 parent 2 children	1 parent 1 child	1 parent, 1 child at - time min. wage ($7.05/hr)
Income - 100% of poverty	$18,850	$15,670	$15,670	$12,490	$14,664
Federal EIC at that income	$3,492	$2,503	$3,956	$2,604	$2,503
State Tax before EIC	$423	$301	$350	$277	$424
Percent of EIC needed	12%	12%	9%	11%	17%

Source: Oregon Center for Public Policy

How much will it cost?

The current, five percent non-refundable Oregon EIC will cost Oregon $19.3 million in the 2005-07 biennium.[19] According to the Legislative Revenue Office (LRO), making the existing five percent Oregon EIC refundable in the 2005-07 biennium will cost approximately $11.9 million over the cost of the current, non-refundable, credit.[20] In other words, under current law Oregon's working poor families are being denied $11.9 million, or one-third, of the tax credit. The LRO estimates that a refundable earned income credit expanded to equal 15 percent of the federal credit, more than enough to eliminate income taxes for poor two-parent families, would cost $69.2 million.[21]

13 of 18 state EICs are refundable, and 14 state EICs are greater than Oregon's.

Table 7. States with Earned Income Credits, tax year 2004

State	% of Federal EIC	Refundable	State	% of Federal EIC	Refundable
Colorado*	10%	Yes	New Jersey	20% (if income < $20,000)	Yes
Dist. of Columbia	25%	Yes	New York	30%	Yes
Illinois	5%	Yes	Oklahoma	5%	Yes
Indiana	6%	Yes	**Oregon**	**5%**	**No**
Iowa	6.5%	No	Rhode Island****	25%	No
Kansas	15%	Yes	Vermont	32%	Yes
Maine**	4.92%	No	Wisconsin	4% - 1 child	Yes
Maryland***	20%	Yes		14% - 2 children	
Massachusetts	15%	Yes		43% - 3 children	
Minnesota	Varies – average 33%	Yes	Virginia	20% effective in 2006	No

*Colorado's EIC is currently suspended. It is expected to be reinstated in 2006.
**Maine reduced its credit from 5% to 4.92% for tax years 2003, 2004, & 2005. It will return to 5% in 2006.
***Maryland also offers a 50% non-refundable credit; taxpayers may claim either the refundable or the non-refundable credit but not both.
****Rhode Island made a very small portion of its credit refundable, beginning in 2003. Source: Center on Budget and Policy Priorities.

Conclusion

The federal and state Earned Income Credits target public investment directly at low-income working families. As the rising rate of poverty among working families in Oregon indicates, employment does not equal financial stability or true self-sufficiency. Low-income, working families need help if they are to remain in the workforce and to survive without other forms of cash assistance.

Making the state Earned Income Credit refundable, and expanding it 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 that it "shields genuine subsistence income from taxation."[22] These changes would demonstrate a solid commitment to those who were largely left out of the boom of the 1990s and are struggling to achieve self-sufficiency. Investing in Oregon's low-income, working families is vital to producing stronger community economies across Oregon in the future.

Endnotes

[1] Johnson, Nicholas. *A Hand Up: How State Earned Income Tax Credits Help Working Families Escape Poverty in 2001* (Center on Budget and Policy Priorities, 2001). Available at: http://www.cbpp.org/12-27-01sfp.pdf. For information on the Clinton expansion see "President Clinton Proposes To Expand The Earned Income Tax Credit In Order To Increase The Reward For Work And Family," (The White House Office of the Press Secretary, January 12, 2000). Available at: http://clinton4.nara.gov/WH/New/html/ 20000112_2.html. The author thanks Robert Zahradnik of the Center on Budget and Policy Priorities for providing data on state EICs and cost estimation.

[2] Author's calculations based on Current Population Survey data.

[3] Leachman, Michael, *In the Shadows of the Recovery: The State of Working Oregon 2004* (Oregon Center for Public Policy, 2004), pp. 17. Available at: http://www.ocpp.org/2004/nr040905.htm.

[4] The differential between one- and two-parent families is how the federal EIC arguably promotes marriage.

[5] Oregon Department of Administrative Services and Oregon Department of Revenue*, State of Oregon 2005-07 Tax Expenditure Report*, section 1.137, p. 137. Available at http://www.oregon.gov/DOR/STATS/exp05-07-toc.shtml

[6] One survey of EIC recipients in Chicago found that 75 to 80 percent of respondents planned to spend at least a portion of their refund on bills or commodities. See Smeeding, Timothy M., Katherin E. Ross, & Michael O'Connor, "The Economic Impact of the Earned Income Credit (EITC): Consumption, Savings, and Debt," Center for Policy Research Working Paper No. 13, Syracuse University, October 1999 [Revised April 2000].

[7] Author's analysis of IRS data compiled by The Brookings Institution, and available at http://apps89.brookings.edu:89/EITC/eitc.jsp. For the 2002 tax year, 209,603 taxpayers had claimed $337.7 million from the federal EIC in Oregon, an average claim of $1,611.

[8] *ibid.*

[9] Benton, Clackamas, and Washington Counties had the lowest rates of filers claiming the credit. These counties are among Oregon's wealthiest.

[10] Figures on total federal support for TANF from US Department of Health and Human Services. Available at http://www.acf.hhs.gov/programs/ofs/data/tableA_spending_2003.html

[11] Oregon Department of Administrative Services and Oregon Department of Revenue*, State of Oregon 2005-07 Tax Expenditure Report*, section 1.137, p. 137. Available at http://www.oregon.gov/DOR/STATS/exp05-07-toc.shtml

[12] House Bill 2716 was supported by 45 members of the House and 22 members of the Senate. Of those who supported making the measure refundable, 31 are members of the House in 2003 (Representatives Ackerman, Backlund, Barnhart, Bates, Brown, Butler, Doyle, Garrard, Hansen, Hass, Hopson, Jenson, Johnson, Kafoury, Knopp, Krieger, Kropf, Kruse, March, Merkley, Miller, Minnis, Monnes-Anderson, Nelson, Nolan, Patridge, Rosenbaum, Shetterly, Smith T., Westlund, and Wirth) and 24 are now members of the Senate (Senators Atkinson, Burdick, Carter, Corcoran, Courtney, Deckert, Devlin, Dukes, Ferrioli, Fisher, George, Gordly, Harper, Messerle, Metsger, Minnis, Morrisette, Nelson, Ringo, Shields, Starr B., Starr C., Walker, and Winters).

[13] See Sheketoff, Charles, *Tax Credits and Maintenance-of-Effort: Using Refundable State Earned Income and Working Family Child Care Credits to Meet Welfare Spending Rules* (Oregon Center for Public Policy, April 20, 1999). Available at http://www.ocpp.org/1999/esmoe0499.htm. Also Johnson, Nick, *A Hand Up,* pp. 29-31.

[14] Zahradnik, Bob and Joseph Llobrera, *State Income Tax Burdens on Low-Income Families in 2003* (Center on Budget and Policy Priorities, April 8, 2004). Available at: http://www.cbpp.org/4-8-04sfp.pdf.

[15] Oregon taxes individuals without children down to about 53 percent of the federal poverty guidelines. Married couples without children pay taxes down to about 70 percent of poverty.

[16] McIntyre, Robert, et. al. *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States.* 2nd ed. (Institute for Taxation and Economic Policy, January 2003), pp. 90-91.

[17] The table only examines families with up to two children. Larger families in poverty would require a higher credit amount to eliminate their state taxes because, while the poverty level continues to increase for families of 3 or more children, the value of the federal (and therefore the state) Earned Income Credit does not. Larger families can qualify for substantial additional federal relief through the refundable Additional Child Tax Credit.

[18] McIntyre, Robert, et. al., *Who Pays?*

[19] *Tax Expenditure Report, 2005-07*, section 1.137, p. 137.

[20] Legislative Revenue Office, *Impact of 1997 Legislation – Earned Income and Working Family Child Care Tax Credits in Oregon*, Research Report #6-04, December 2004, p. 9. Using figures from the Joint Committee on Taxation (*Estimates of Federal Tax Expenditures for Fiscal Years 2005-2009,* January 12, 2005), and from the Internal Revenue Service's Statistics of Income, the OCPP estimates that the LRO figures may be low. Assuming a 90 percent participation rate, the OCPP estimates a five percent *refundable* credit will cost an additional $15.3 million over current law.

[21]. Legislative Revenue Office, *Impact of 1997 Legislation – Earned Income and Working Family Child Care Tax Credits in Oregon*, Research Report #6-04, December 2004, p. 9. Using the methodology in the note above, the OCPP estimates a 15 percent *refundable* credit will cost an additional $80.6 million. Increasing the current, non-refundable credit to 15 percent would eliminate income taxes for many families in poverty; however, doing so ignores the fact that some Oregon workers are already unable to claim all or part of the current five percent credit. Increasing the non-refundable credit to 15 percent would only increase the amount of credit they *could not* claim.

[22] *Oregon Revised Statutes* 316.003, sections 2(a) and 2(E)(a).

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Appendix. Number & Percent of federal returns claiming the federal Earned Income Credit, and their value, by Oregon legislative district

House Dist.	Representative	Returns	# Claiming EIC	% Claiming EIC	Value	Senate Dist.	Senator	Returns	# Claiming EIC	% Claiming EIC	Value
1	Krieger	24,863	4,269	17.2%	$7,082,727						
2	Morgan	23,794	3,977	16.7%	$6,620,823	1	Kruse	48,657	8,246	16.9%	$13,703,550
3	Anderson	22,381	4,433	19.8%	$7,331,714						
4	Richardson	26,343	4,490	17.0%	$7,400,828	2	Atkinson	48,724	8,923	18.3%	$14,732,542
5	Buckley	27,678	4,675	16.9%	$7,356,864						
6	Esquivel	24,765	3,881	15.7%	$6,622,655	3	Bates	52,443	8,556	16.3%	$13,979,519
7	Hanna	24,282	4,139	17.0%	$6,716,025						
8	Holvey	25,086	2,969	11.8%	$3,964,433	4	Prozanski	49,368	7,108	14.4%	$10,680,458
9	Roblan	23,674	3,971	16.8%	$6,704,384						
10	Brown	25,286	4,112	16.3%	$6,610,297	5	Verger	48,960	8,083	16.5%	$13,314,681
11	Barnhart	27,114	3,698	13.6%	$5,609,424						
12	Beyer	22,031	4,072	18.5%	$6,761,974	6	Morrisette	49,145	7,770	15.8%	$12,371,398
13	Ackerman	27,218	3,165	11.6%	$4,430,865						
14	Farr	25,587	4,217	16.5%	$6,416,550	7	Walker	52,805	7,382	14.0%	$10,847,415
15	Olson	25,739	3,470	13.5%	$5,650,017						
16	Wirth	22,883	1,995	8.7%	$2,689,930	8	Morse	48,622	5,465	11.2%	$8,339,947
17	Kropf	23,270	3,645	15.7%	$6,128,573						
18	Sumner	24,377	3,574	14.7%	$6,155,476	9	Beyer	47,64	7,219	15.2%	$12,284,049
19	Cameron	25,146	3,636	14.5%	$6,009,171						
20	Berger	24,162	3,084	12.8%	$5,060,175	10	Winters	49,308	6,720	13.6%	$11,069,346
21	Dalto	21,572	3,972	18.4%	$6,759,076						
22	Komp	17,249	3,507	20.3%	$6,568,083	11	Courtney	38,821	7,479	19.3%	$13,327,159
23	Boquist	24,565	3,401	13.8%	$5,629,881						
24	Nelson	24,212	3,638	15.0%	$6,503,352	12	George	48,777	7,039	14.4%	$12,133,233
25	Thatcher	24,782	3,980	16.1%	$7,115,612						
26	Krummel	28,448	2,585	9.1%	$4,162,051	13	Starr, C.	53,230	6,565	12.3%	$11,277,663

Appendix, continued. Number & Percent of federal returns claiming the federal Earned Income Credit, and their value, by Oregon legislative district

House Dist.	Representative	Returns	# Claiming EIC	% Claiming EIC	Value	Senate Dist.	Senator	Returns	# Claiming EIC	% Claiming EIC	Value
27	Hass	28,284	2,487	8.8%	$3,802,870						
28	Barker	24,693	2,539	10.3%	$4,025,195	14	Deckert	52,977	5,026	9.5%	$7,828,065
29	Riley	20,405	2,770	13.6%	$4,944,170						
30	Kitts	27,498	2,765	10.1%	$4,668,602	15	Starr, B.	47,903	5,535	11.6%	$9,612,772
31	Witt	24,648	3,002	12.2%	$4,759,264						
32	Boone	25,141	3,602	14.3%	$5,860,553	16	Johnson	49,789	6,604	13.3%	$10,619,817
33	Greenlick	31,729	2,104	6.6%	$2,314,657						
34	Avakian	26,690	2,662	10.0%	$4,286,159	17	Ringo	58,419	4,766	8.2%	$6,600,816
35	Galizio	26,043	2,118	8.1%	$3,208,200						
36	Nolan	24,677	1,620	6.6%	$1,401,107	18	Burdick	50,720	3,738	7.4%	$4,609,307
37	Bruun	27,242	1,851	6.8%	$2,834,121						
38	Macpherson	28,793	1,469	5.1%	$1,833,336	19	Devlin	56,035	3,320	5.9%	$4,667,457
39	Scott	24,600	2,745	11.2%	$4,470,299						
40	Hunt	24,957	2,898	11.6%	$4,651,066	20	Schrader	49,557	5,643	11.4%	$9,121,365
41	Tomei	26,997	3,625	13.4%	$5,124,517						
42	Rosenbaum	29,490	3,322	11.3%	$3,576,736	21	Brown	56,487	6,947	12.3%	$8,701,253
43	Shields	25,930	3,814	14.7%	$5,522,840						
44	Hansen	23,260	4,315	18.6%	$7,116,507	22	Carter	49,190	8,129	16.5%	$12,639,347
45	Dingfelder	27,639	3,588	13.0%	$5,380,999						
46	March	27,115	3,586	13.2%	$5,173,837	23	Gordly	54,754	7,174	13.1%	$10,554,836
47	Merkley	26,101	4,636	17.8%	$7,921,966						
48	Schaufler	24,480	4,320	17.6%	$7,478,901	24	Shields	50,581	8,956	17.7%	$15,400,867
49	Minnis	24,298	3,559	14.6%	$6,099,460						
50	Lim	24,155	2,970	12.3%	$5,032,155	25	Monnes-Anderson	48,453	6,529	13.5%	$11,131,615

Appendix, continued. Number & Percent of federal returns claiming the federal Earned Income Credit, and their value, by Oregon legislative district

House Dist.	Representative	Returns	# Claiming EIC	% Claiming EIC	Value	Senate Dist.	Senator	Returns	# Claiming EIC	% Claiming EIC	Value
51	Flores	26,287	3,228	12.3%	$5,298,305						
52	Smith, P.	25,699	3,391	13.2%	$5,628,308	26	Metsger	51,986	6,619	12.7%	$10,926,613
53	Whisnant	28,505	4,216	14.8%	$6,943,633						
54	Burley	26,277	3,370	12.8%	$5,217,531	27	Westlund	54,782	7,586	13.8%	$12,161,164
55	Gilman	25,815	4,668	18.1%	$7,574,103						
56	Garrard	23,527	4,640	19.7%	$7,967,593	28	Whitsett	49,342	9,308	18.9%	$15,541,696
57	Smith, G.	25,471	4,513	17.7%	$7,533,919						
58	Jenson	22,564	4,179	18.5%	$7,377,462	29	Nelson	48,035	8,692	18.1%	$14,911,381
59	Dallum	23,975	4,512	18.8%	$7,864,207						
60	Butler	20,489	4,483	21.9%	$7,925,991	30	Ferrioli	44,464	8,995	20.2%	$15,790,198
House District Average		**25,116**	**3,502**	**13.9%**	**$5,647,992**	**Senate District Average**		**50,333**	**7,004**	**17.5%**	**$11,295,984**

* Source: OCPP analysis of IRS data for tax year 2002 compiled by The Brookings Institution. Where a zip code crossed legislative boundaries, data were split using a formula based on the percentage of registered voters in each zip code, in each district.