Expanding the EIC in 2009

Increasing the state Earned Income Credit would add fairness and help low-wage working families and communities across Oregon

This tax season, Oregon will require a minimum wage worker who was employed full-time, year-round last year and supported one child to pay about $321 in state income taxes. That’s equivalent to about a month of food for this hard-working but financially insecure family.¹

Oregon’s Earned Income Credit, enacted in 1997, has certainly helped Oregon’s most vulnerable families. The minimum wage family of two described above would have owed about $484 in state income taxes — $163 more — without the tax credit. Because the credit is so small, though (it’s one of the nation’s smallest among states with such credits) Oregon income taxes are still taking a month’s worth of food off the table of vulnerable families. In a state where two-thirds of corporations pay just $10 a year in income taxes, that’s shameful.

By expanding the Earned Income Credit (EIC), Oregon can give a hand up to low-wage working families, rather than leaving them behind.

The Oregon EIC piggybacks on the federal EIC. Oregon families can receive a tax credit worth 6 percent of the federal credit. The amount of the state and federal credit varies with income and the number of children. A married-couple family of four earning between $11,750 and $17,400 in 2007 would have received the maximum benefit. Families with incomes up to about $40,000 can qualify for at least a small EIC, but nearly two-thirds of families who receive Oregon’s EIC earn less than $20,000 per year.²

Oregon’s EIC ties for sixth smallest among 23 states (including the District of Columbia) with state EICs.³ At the same time, Oregon’s income tax on poor families of four ranks fifth highest among states, and its income tax on near-poor families of four ranks third highest.⁴

Increasing the state EIC would benefit Oregon in three key ways:

♦ **The EIC helps low-wage working families.** Expanding Oregon’s EIC from 6 percent of the federal credit to 18 percent would eliminate income taxes on a minimum wage worker with one child and would reduce income taxes paid by other low-wage working families. Expanding the EIC to 12 percent would at least eliminate income taxes on Oregon families with one or two children with incomes below the poverty line, allowing Oregon to join the majority of states that do not impose income taxes on such families.

♦ **The EIC is spent in communities across Oregon.** A single parent raising one child and earning the maximum state EIC would have had $342 more last year to cover the costs of necessities if Oregon’s EIC had been 18 percent of the federal credit, instead of 6 percent. A two-parent, two-child family earning the maximum EIC would have had $566 more. Since families primarily use the refunds to pay bills such as rent or utilities and to buy basic necessities such as groceries or gas, most of the $50 million a year in expanded Earned Income Credit money would circulate through communities across Oregon.⁵

♦ **The EIC makes Oregon’s tax system fairer.** Increasing Oregon’s EIC would bring Oregon’s overall state and local tax system closer to one that is based on taxpayers’ ability to pay. Under today’s state and local tax system, the poorest Oregon households pay a higher share of their income in taxes than Oregon’s richest households. Adding insult to injury, while a family of four with poverty level income from work paid about $238 in income taxes last year, two-thirds of corporations operating in Oregon, including corporations with substantial profits, paid just $10 each.
Endnotes

1 OCPP’s analysis of data from the Bureau of Labor Statistics’ Consumer Expenditure Survey finds that a two-person family in the lowest-income fifth of families in the United States spent about $311 per month on food in 2006.

2 In 2005, 63 percent of state EIC returns reported adjusted gross income under $20,000. OCPP analysis of data in Oregon Department of Revenue, 2005 Personal Income Tax Statistics, table 1.1, full-year returns.


### Federal Earned Income Credit by State Senate District, 2005

<table>
<thead>
<tr>
<th>Senate district</th>
<th># returns</th>
<th>EIC returns</th>
<th>EIC share</th>
<th>EIC $</th>
<th>Share rank</th>
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### Federal Earned Income Credit by State House District, 2005

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<thead>
<tr>
<th>House district</th>
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<th># EIC returns</th>
<th>EIC share</th>
<th>EIC $</th>
<th>Share rank</th>
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### Federal Earned Income Credit by State House District, 2005

<table>
<thead>
<tr>
<th>House district</th>
<th># returns</th>
<th># EIC returns</th>
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<th>EIC $</th>
<th>Share rank</th>
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<td><strong>House average</strong></td>
<td><strong>26,454</strong></td>
<td><strong>3,695</strong></td>
<td><strong>14.0%</strong></td>
<td><strong>$6,290,611</strong></td>
<td>--</td>
</tr>
</tbody>
</table>

EIC returns as a share of all tax returns, by Senate district
2005 tax year

Numbers in small type are Senate districts
Source: Brookings Institution analysis of 2005 IRS data.

EIC share

18.0–21.7%
16.0–17.9%
13.0–15.9%
11.0–12.9%
5.2–10.9%

Dist. 10, 13.9%
Dist. 8, 11.7%
Dist. 7, 14.4%
13.3%
14.4%
16.1%
16.1%
16.8%
17.5%
16.1%
14.3%
14.2%
13.0%
18.5%
20.3%
EIC returns as a share of all tax returns, by House district
2005 tax year

EIC share

18.0–21.7%
5.2–10.9%
11.0–12.9%
13.0–15.9%
16.0–17.9%

Numbers in small type are Senate districts
Source: Brookings Institution analysis of 2005 IRS data.
EIC share

18.0–21.7%
16.0–17.9%
13.0–15.9%
11.0–12.9%
5.2–10.9%

Numbers in small type are Senate districts.
Source: Brookings Institution analysis of 2005 IRS data.

Dist. 43, 14.4%
Dist. 42, 11.7%
Dist. 46, 14.2%
Dist. 21, 18.4%

EIC share

18.0–21.7%
16.0–17.9%
13.0–15.9%
11.0–12.9%
5.2–10.9%

Numbers in small type are Senate districts.
Source: Brookings Institution analysis of 2005 IRS data.