OCPP OREGON CENTER for PUBLIC POLICY
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MEMORANDUM

TO: Members of the House Committee on Human Services and Housing

FROM: Jason Gettel, policy analyst

DATE: March 29, 2013

RE: Examples of Families that Qualify for Oregon's Earned Income Tax Credit

At the March 13 public hearing on HB 2477 and HB 2850, committee members requested examples of how families at different income levels are impacted by Oregon's Earned Income Tax Credit (EITC). This memorandum provides some examples.

All examples are based Institute on Taxation and Economic Policy (ITEP) and OCPP analysis of 2012 tax law. Each assumes that the families take the standard deduction and file a joint return if the family has two parents present. Other income tax credits or deductions are discussed individually, when appropriate. Poverty information is based on 2012 Federal Poverty Guidelines.

"Oregon City family"

The first example illustrates how the EITC would help the "Oregon City family" discussed by the Department of Housing and Community Services earlier in the hearing. The department described that family as follows:

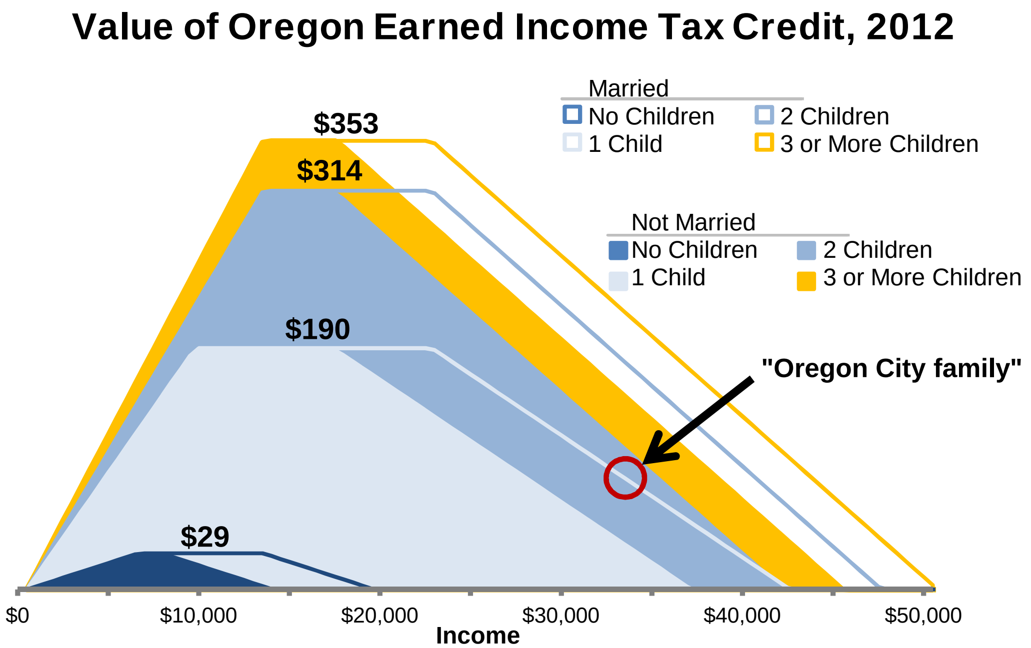
> The family is "a typical renter family in Oregon City. It's a young couple with a small child. Sally works at a clothing store and Bob as a bus driver. Combined they take home $2,447 a month, and their two bedroom apartment costs $912 a month, food about $500, then they have to pay $600 a month for child care and that group medical insurance Sally gets through work leaves them with big co-pays. They share one car, and Bob takes the bus to work, which takes him over an hour each way."

Based on their income and family size, here is how Oregon's EITC would apply to this family:

Annual Income		$32,955
Estimated Oregon Income Tax before EITC		$1,608
Oregon EITC at current 6%		$88
	Estimated Net Oregon Income Tax	$1,520
Oregon EITC at Governor's recommended 8%		$117
	Estimated Net Oregon Income Tax	$1,491
Oregon EITC at 18%		$264
	Estimated Net Oregon Income Tax	$1,344

Since Sally and Bob are working to support a young child, they would also likely qualify for the Oregon Working Family Child Care Credit. Based on their child care expenses ($600 per month; $7,200 per year), income and family size, their childcare credit would be $2,880.

However, this Oregon City family is not the prime target of the EITC. They actually earn too much to qualify for the maximum credit. As you can see on the following chart, their income places them well into the phase out range of the Oregon EITC.



Source: OCPP analysis of IRS data.

The EITC targets greater assistance to working families with children living closer to the poverty line. Consider the following examples.

Married Couple, 1 child, earning poverty wages

Modifying the previous example, imagine that Bob got small raise but Sally lost her job. After not being able to find employment, Sally decides to stay home to care for their child to eliminate the child care expenses. Their annual family income is now $19,090, the poverty line for a family of three. Here is how Oregon's EITC could impact them now:

Annual Income	$19,090
Estimated Oregon Income Tax before EITC	$377
Oregon EITC at current 6%	$190
Estimated Net Oregon Income Tax	$187
Oregon EITC at Governor's recommended 8%	$254
Estimated Net Oregon Income Tax	$124
Approximate EITC percent needed for $0 in Net Oregon Income Tax	12%

Single Parent, 1 child, earning poverty wages

In an alternate scenario, imagine that Bob is no longer in the picture and Sally is a single working mother. Her child is now in school during the day so there are no child care expenses.

However, her family still struggles to get by — she earns just enough to live at the poverty line for a family of two. The Oregon EITC can make a difference:

Annual Income	$15,130
Estimated Oregon Income Tax before EITC	$331
Oregon EITC at current 6%	$190
Estimated Net Oregon Income Tax	$141
Oregon EITC at Governor's recommended 8%	$254
Estimated Net Oregon Income Tax	$78
Approximate EITC percent needed for $0 in Net Oregon Income Tax	11%

As you can see through these examples, Oregon's Earned Income Tax Credit makes a difference for working families living at or near the poverty line. Currently at 6 percent of the federal credit, Oregon's EITC provides a small boost to these working families. The credit would make a larger difference if the legislature followed the Governor's recommendation and increased Oregon's EITC to 8 percent of the federal EITC. Further increasing the credit would have an even more meaningful impact.

This small investment in working families with children can make a big difference in the lives of individual families that receive the credit and in communities in every corner of Oregon. That helps lift up not just these families and their children, but our state as a whole.