

Boosting Oregon's EITC Benefits Working Households and the State

Testimony in Support of HB 3028 with -1 and -2 amendments

by Janet Bauer, Policy Analyst,

before the House Human Services and Housing Committee

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Good afternoon, Chair Keny-Guyer, Vice-Chairs Sanchez and Noble, and members of the committee. My name is Janet Bauer. I am a policy analyst with the Oregon Center for Public Policy. Our goal is to expand economic opportunity for low- and modest-income Oregonians. We are a member of Renew and Raise, a broad coalition that supports a significant increase to Oregon's Earned Income Tax Credit. I am here today to talk about the economic and fiscal benefits of raising the EITC.

The Earned Income Tax Credit has been extensively researched and found to have multiple positive impacts on households, children, communities, and state budgets. Here are some of the key benefits:

The EITC boosts the income of working households struggling to make ends meet. For many low-wage working families, the amount of the federal EITC is substantial. For a single parent of two children, the maximum federal benefit for the 2019 tax year is \$5,828. For that household working full time at Oregon's Standard minimum wage, the EITC credit is about \$4,800. The vast majority of the credit comes in the form of a cash refund, since the tax liability offset is typically small.

There is substantial evidence that the EITC serves as a work incentive. Single mothers saw a big increase in paid employment following increases in the federal EITC in the 1990s. The EITC also serves to support a person's work engagement. For instance, studies show that people are more likely to purchase a vehicle after getting their EITC refund — a purchase that can help maintain a job, or similar type spending such as car repair or public transportation.

In sum, the impact of the EITC cash itself, plus its effect in encouraging income-generating employment, adds up to meaningful gains in income for cash-strapped households.

The EITC helps children succeed. There is a large body of research that shows that the EITC is good for kids. Children in households getting the EITC tend to be healthier, tend to do better in school, are more likely to attend college, and have higher earnings as adults than similar children not getting the EITC. Researchers have found that for every \$3,000 per year in additional household income for a child before age 6 results in a 17 percent boost in earnings when the child becomes an adult.

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The EITC reduces public expenditures. By boosting employment and earned income, the EITC reduces participation in cash assistance programs. Researchers found the EITC expansions in the 1990s were a larger factor in boosting employment among single mothers than the impact of time limits in the so-called “welfare reform” legislation. Further, the EITC can reduce criminal justice and corrections spending. Recent research has found that the EITC helped formerly incarcerated people stay employed and reduced recidivism among women — who tellingly are more likely to receive a much larger EITC benefit being more likely to have dependent children.

The EITC supports the economy. The Earned Income Tax Credit is a tool to promote local and regional economic health. The federal credit brings more than half a billion dollars per year to Oregon, dollars that flow to every House and Senate District in the state. The EITC is targeted to cash-strapped households — those most likely to spend the dollars quickly in the local economy meeting basic needs. In fact, the credit was first conceived, in part, as an economic stimulus measure.

Local economies greatly benefit from the annual infusion of EITC dollars. When EITC recipients spend their tax credit refund, it results in more sales at local businesses, which in turn spend the dollars on wages of employees or buying local goods and services. The circulating dollars can create jobs. Although local conditions determine the exact economic “multiplier effect,” a study of the EITC in California estimated that one EITC dollar generates \$1.40 of economic activity. Other estimates put the figure at \$1.58. State and local governments also benefit, as businesses and their employees benefiting by the circulating EITC dollars pay various types of taxes.

In closing, boosting Oregon's EITC would have lasting benefits for working households and children, would reduce costs in several areas of the state budget, and would support local economies throughout the state.

Thank you for the opportunity to speak with you today.