

Income Tax Credits: Policy Review 2025 Session

Senate Interim Committee on Finance & Revenue

LRO | 12/11/2024



Overview of Presentation

- What is the tax credit review process?
- Cost to extend sunseting tax credits
- Brief overview of individual credits scheduled for review in 2025





Tax Credit Review Process

- Biennial review of personal and corporate income tax credits scheduled to sunset in upcoming biennium
- Legislative Revenue Office (LRO) prepares a report accompanying biennial review process (ORS 315.051)
- Credit reviews are facilitated by individual measures extending credit's sunset by 6-years (Senate & House chambers)





Tax Credit Report

- Contents of the Tax Credit Report
 - Review of each sunseting tax credit
 - Policy purpose
 - Description
 - Policy analysis
 - Similar incentives available in Oregon (contributions by LFO)
 - Similar credits in other states





Tax Credits Sunsetting in 2025-27 Biennium

Estimated Cost of Extending Tax Credits

\$ Millions

Tax Expenditure Report (TER) Number and Credit Name	ORS	Sunset Date	-----Biennium-----		
			2025-27	2027-29	2029-31
<i>Scheduled for Review by the 2025 Legislature</i>					
1.406 Earned Income	315.266	2026	\$53.0	\$106.8	\$108.8
1.425 Manufactured Dwelling Park Closure	316.090	2026	< 50K	< 50K	< 50K
1.431 Crop Donations	315.154-156 (318.031)	2026	\$0.2	\$0.4	\$0.6
1.445 Certain Retirement Income	316.157-158	2026	\$0.4	\$0.8	\$0.7
SUBTOTAL			\$53.6	\$108.0	\$110.1

- Cost to extend estimates reflect extension without policy change
- Sunsets occur midway through 2025-27 biennium, resulting in cost of about half of later biennia
- All four credits were previously reviewed in 2019 legislative session



Oregon's Earned Income Tax Credit (EITC)

The background features a large, faint watermark of the Oregon State Seal. The seal is circular and contains the text "STATE OF OREGON" around the perimeter. In the center, it depicts a plow, a sheaf of wheat, and a ship, symbolizing agriculture, industry, and commerce. The seal is set against a light blue background.



Oregon's EITC – Policy Purpose

- Policy purpose

“to increase the spendable income of low-income working families by offsetting state income taxes on such households, thereby encouraging low-wage earners to enter the labor force or increase their labor force participation”

- Purpose gleaned from legislative committee hearings during 1997 enactment and in later years during policy expansions of credit





Federal EITC – Policy Purpose

- Originally enacted in 1970's
 - Encourage nonworking poor with children to enter the workforce
 - Help reduce the tax burdens on working poor families with children
- Expanded purpose (and credit) in the 90's
 - Poverty reduction for working families
 - Encourage labor force participation





What is the EITC?

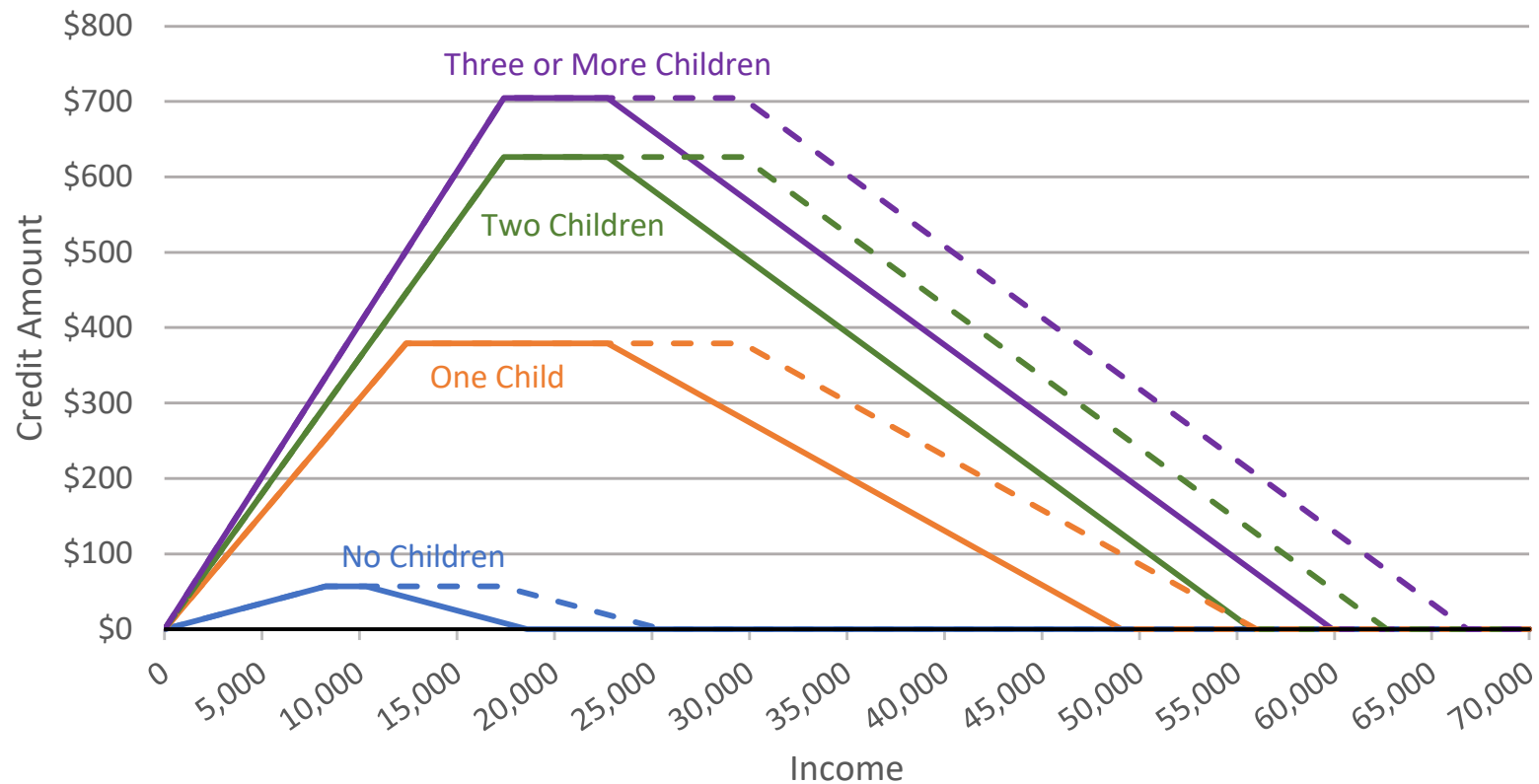
- Refundable personal income tax credit equal to percentage of federal EITC
 - 9% of federal credit
 - 12% if taxpayer has dependent under the age of 3 at close of tax year
- To qualify for credit
 - Have earned income (e.g., wages, tips, self-employment income)
 - Childless workers claiming credit must be aged 25-64
 - Investment income below specified amount (indexed, \$11,600 in 2024)
 - Claimed children must meet relationship, residency, and age requirements





Oregon EITC Amount – 9% Credit

2024 Oregon 9% Earned Income Credit



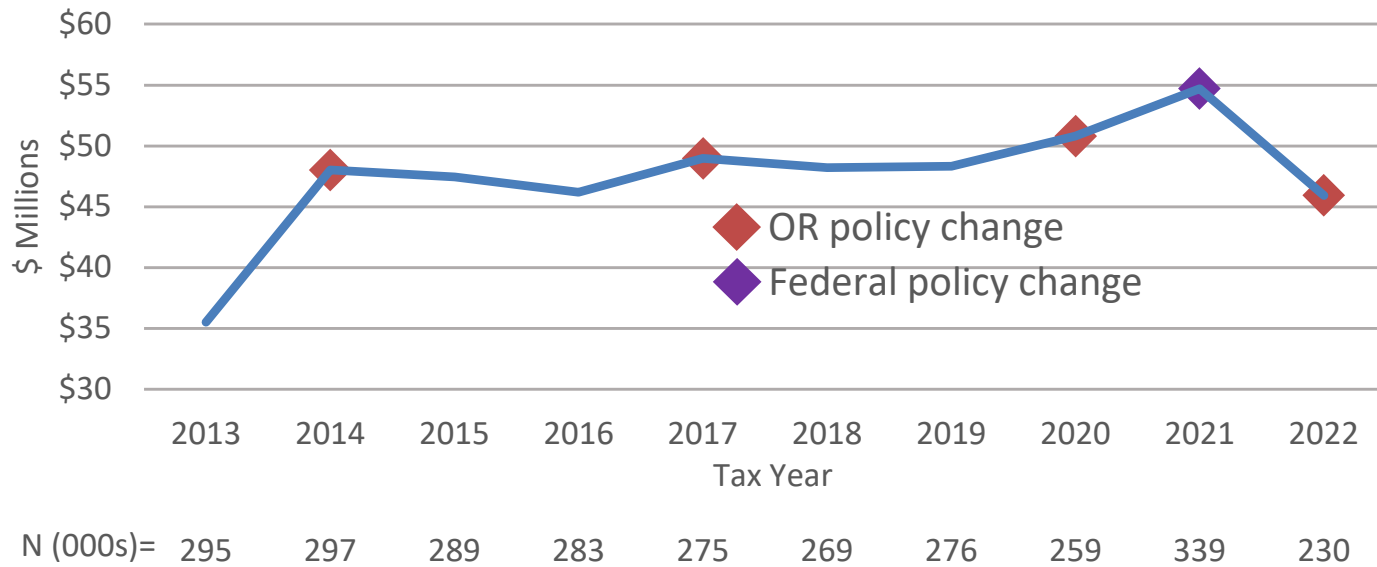
Note: Single Filers (solid line) | Married Filers (dashed line)





Cost of Oregon's EITC

Cost of Earned Income Tax Credit



- Preliminary TY 2023 cost expected to be about \$52M





Recent EITC History

Recent Federal and Oregon EITC Policy Changes, Tax Year in which Change Became Effective

Tax Year	Description of Policy Change (includes federal changes incorporated into Oregon's credit)
2014	OR EITC increased from 6% to 8% of federal amount
2017	OR EITC increased to 11% for taxpayers with child under age 3 making Oregon's credit two different percents of federal, 8% or 11%
2020	OR EITC increased to 9% and 12% respectively
2021	Federal expansion of childless EITC amount/qualification (temporary for TY 2021 only), permanent changes included increasing investment income limit & expanded qualification for separated taxpayers living with children.
2022	OR EITC qualification expanded to include qualification for taxpayers/children using ITIN





Who Claims the EITC?

Oregon Earned Income Tax Credit 2022 Personal Income Tax Filers				
Income Group of Full-Year Filers	Number of Filers Using Credit	Avg. Revenue Impact of Credit	Revenue Impact (\$ millions)	Percent of Revenue Impact by Income Group
< \$19,400	107,050	\$160	\$16.8	39%
\$19,400 - \$40,400	72,200	\$320	\$22.9	53%
\$40,400 - \$67,700	27,590	\$120	\$3.3	8%
\$67,700 - \$117,800	0	\$0	\$0.0	0%
> \$117,800	0	\$0	\$0.0	0%
Total Full-Year Filers	206,840	\$210	\$43.0	100%

Source: 2025-27 Tax Expenditure Report

Full-Year Taxpayers Claiming EITC Using ITIN			
Tax Year	Returns	Amount	Avg.
2022	2,184	\$634,129	\$290
2023 ¹	5,122	\$1,597,264	\$312

¹Returns processed through 11/1/2024

Source: DOR

Credit Amount Claimed by AGI Category TY 2022 Full Year Filers		
AGI (000's)	Claimed	Pct. of Total
<0	166,000	0%
0-5	1,014,000	2%
5-10	3,386,000	8%
10-15	5,973,000	14%
15-20	7,264,000	17%
20-25	6,794,000	16%
25-30	6,061,000	14%
30-35	5,149,000	12%
35-40	3,654,000	8%
40-45	2,131,000	5%
45-50	1,011,000	2%
50-60	427,000	1%
Total	43,029,000	100%

Source: DOR PIT Statistics 2022



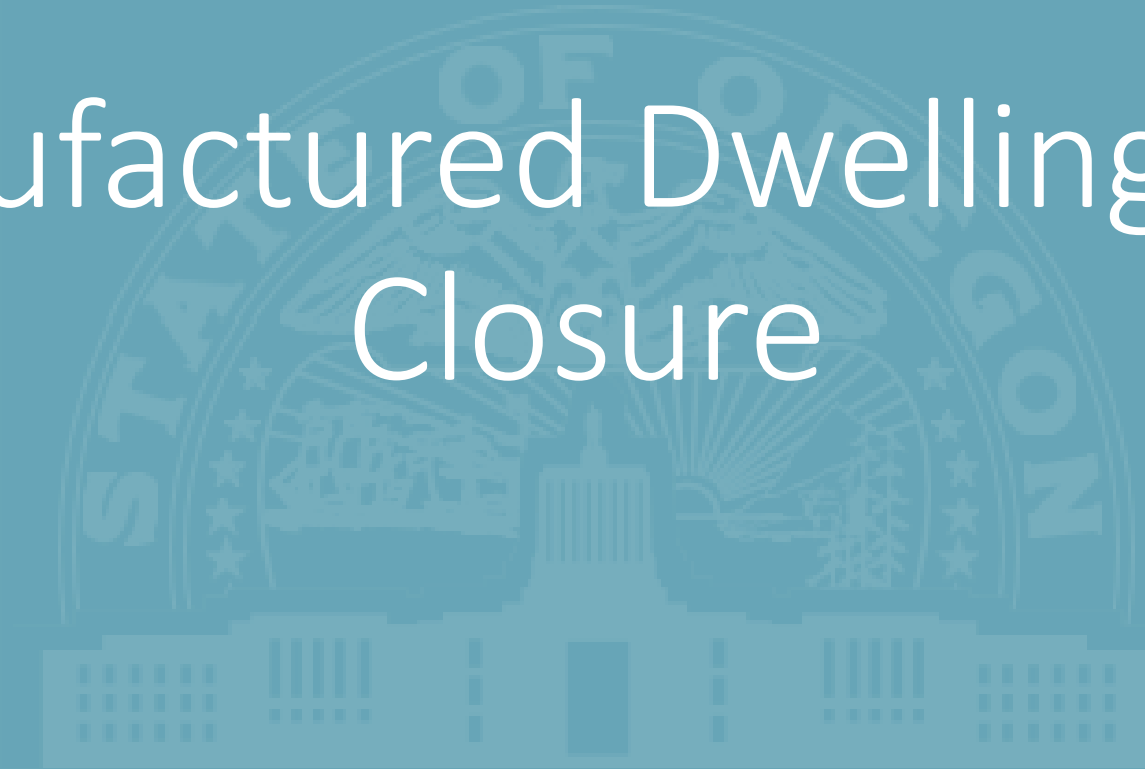


Other EITC Topics Discussed in Report

- EITC impact on spendable income and poverty
- EITC utilization
 - Participation rates
 - Efforts to increase participation
- EITC administration
- Similar Oregon incentives
- EITC in other states



Manufactured Dwelling Park Closure





Manuf. Park Closure Credit – Purpose & Description

- Policy purpose

“Mitigate cost to manufactured dwelling park households that are forced to move due to instances where market forces and development are causing closure of the manufactured dwelling park”

- Credit description

- \$5,000 refundable income tax credit
- Manufactured dwelling park is being closed by landlord or by exercise of eminent domain
- Manufactured dwelling was taxpayer’s owner-occupied principal residence at time of park closure

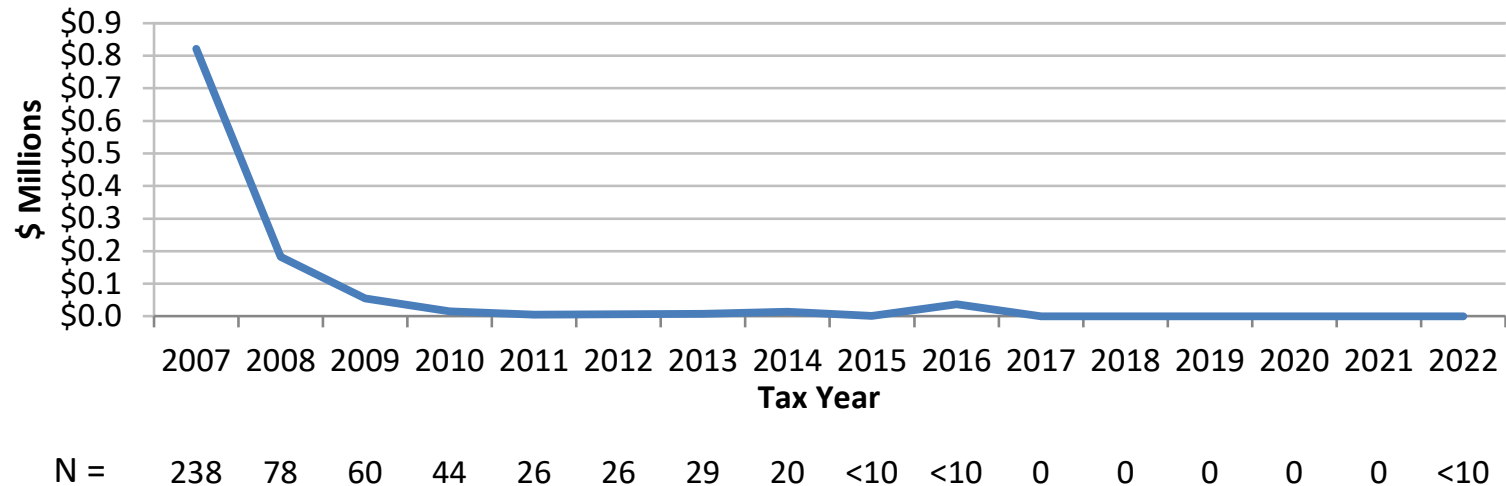




Manuf. Park Closure Credit Use

- Limited use since 2007-2008 period when closures peaked

Cost of Manufactured Dwelling Park Closure



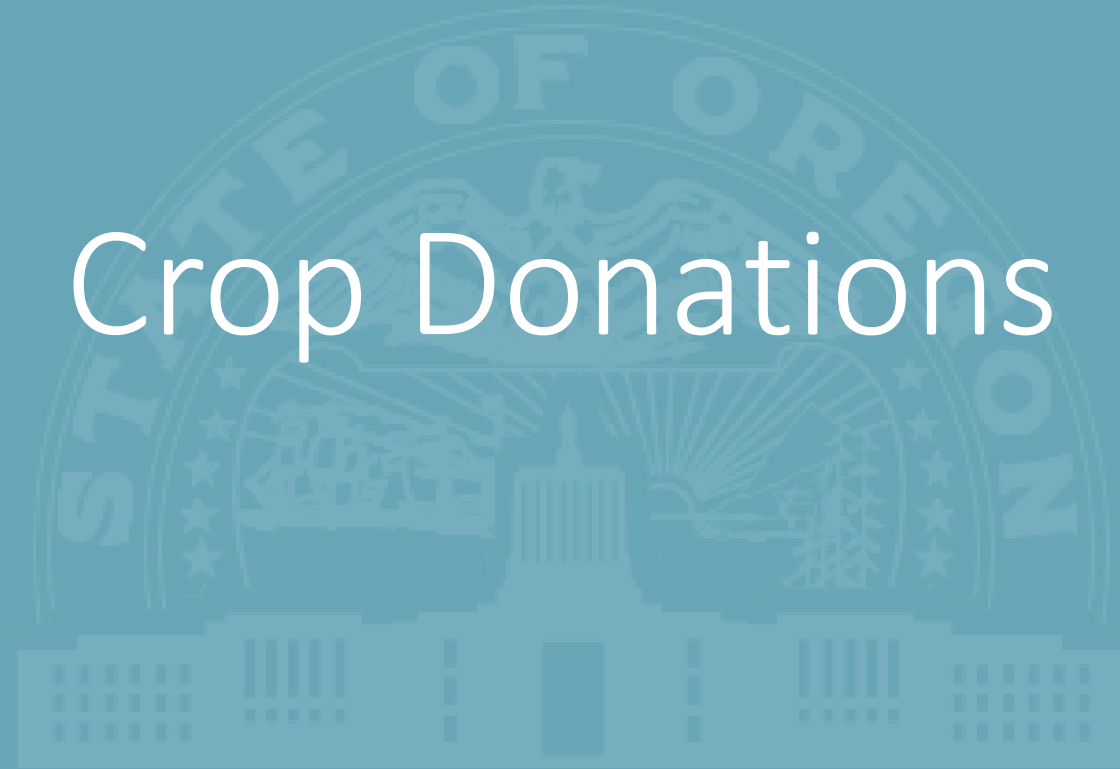


Other Manuf. Closure Topics in Report

- Park closures tracked by Oregon Housing and Community Services
- Households residing in manufactured dwellings
- Required payments from landlords to tenants of closing parks
- Related direct expenditure programs



Crop Donations





Crop Donations Credit - Policy Purpose & Description

- Policy purpose

“To increase the amount of food donated by food producers to charities that serve individuals and families experiencing hunger, by offsetting expenses incurred during the collection, transportation, and storage of donated food”

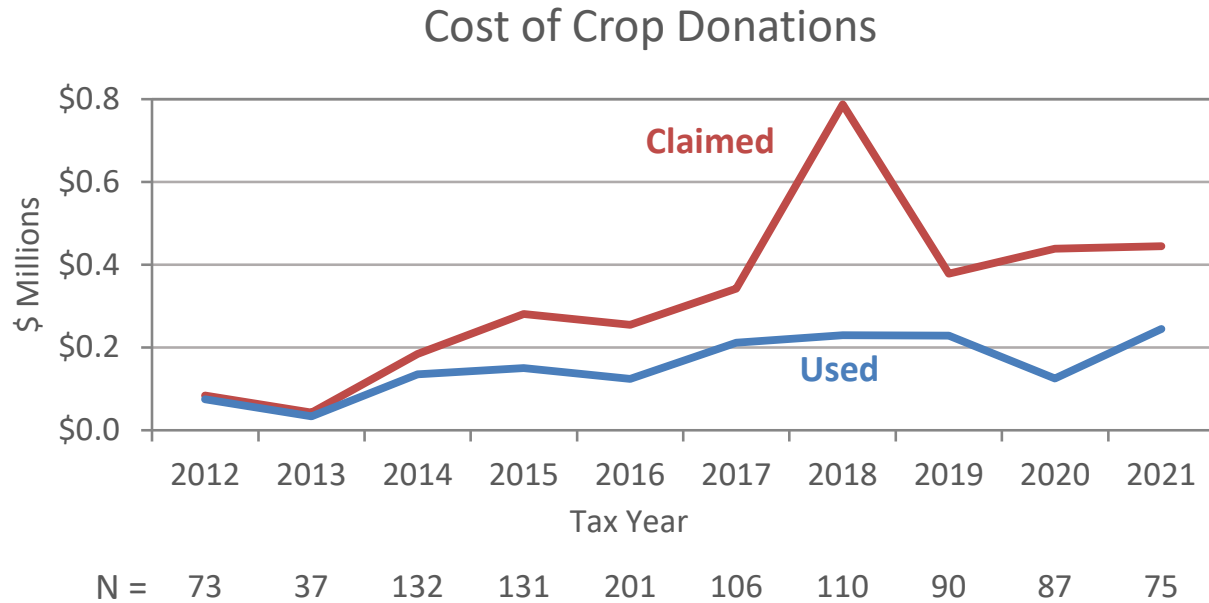
- Credit Description

- Non-refundable personal and corporate income tax credit available to crop growers that make qualified donation to food bank or other charitable organization (3-year carryforward of unused credit)
- Credit = 15% × wholesale market price of crop donated
- Crop defined as agricultural crop producing food fit for human consumption (includes livestock)





Crop Donation Credit Use



Other Topics in Report

- How donated crop can additionally qualify for itemized charitable donation (federal and state)
- Other states with similar credit



Certain Retirement Income





Certain Retirement Income Credit – Policy Purpose & Description

- Policy purpose

“To provide tax relief to low-income individuals with pension income”

- Credit Description

- Individuals aged ≥ 62
- Credit = $9\% \times$ qualified pension income
- Means tested credit
- Qualified pension income includes
 - 401(k) & 457 plans, IRAs
 - Employee pension and annuity benefit plans
 - Federal/state/local public retirement system



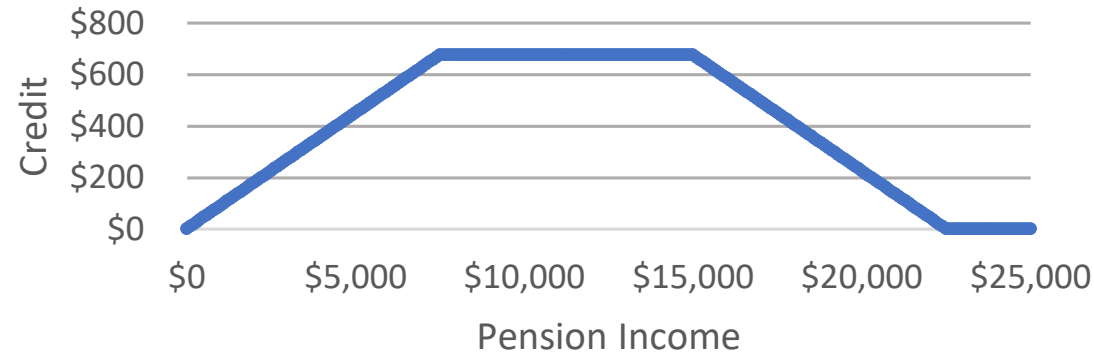


Retirement Credit Means Testing

- To qualify, taxpayer must meet both requirements
 - Social Security benefits \leq \$7,500 single, \$15,000 joint
 - Household income + Social Security \leq \$22,500 (S), \$45,000 (J)
- Income limits are not indexed to inflation

Credit Phaseout Example - Single Filer

Taxpayer with \$0 Social Security Income

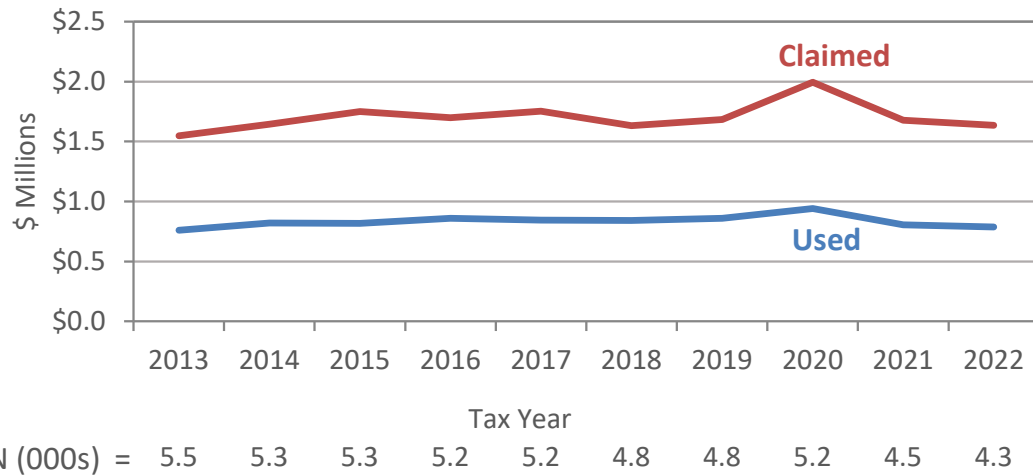




Cost of the Retirement Income Credit

- Cost steady over past 10 years
- Number of taxpayers using credit is declining
- Used by lower income taxpayers

Cost of Certain Retirement Income



Certain Retirement Income 2022 Personal Income Tax Filers				
Income Group of Full-Year Filers	Number of Filers Using Credit	Avg. Revenue Impact of Credit	Revenue Impact (\$ millions)	Percent of Revenue Impact by Income Group
< \$19,400	2,650	\$80	\$0.2	34%
\$19,400 - \$40,400	1,360	\$270	\$0.4	61%
\$40,400 - \$67,700	180	\$180	\$0.0	5%
\$67,700 - \$117,800	0	\$0	\$0.0	0%
> \$117,800	0	\$0	\$0.0	0%
Total Full-Year Filers	4,190	\$150	\$0.6	100%

Source: 2025-27 Tax Expenditure Report



[Link](#) to 2025 Tax Credit Report

Legislative Revenue Office

<https://www.oregonlegislature.gov/lro>

503-986-1266

State of Oregon

LEGISLATIVE REVENUE OFFICE

