

# Oregon's Earned Income Tax Credit (EITC)

House Committee on Revenue

*2/25/25*



# Overview of Presentation

- Policy purpose of EITC
- Description of the credit
- Recent history and cost
- EITC claimants & poverty
- EITC utilization
- EITC administration & compliance

# 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Originally enacted in 1970's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?

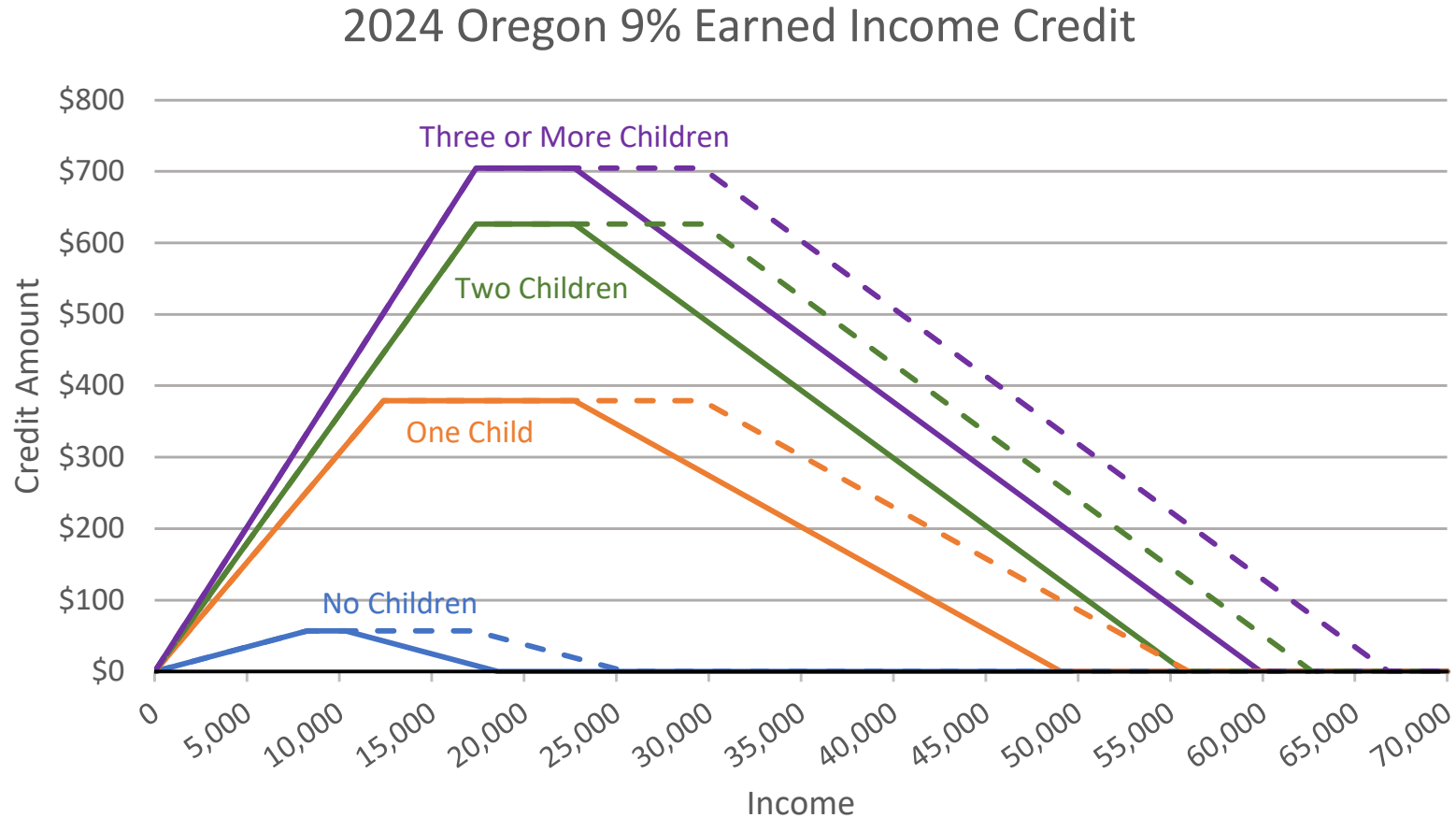
Refundable personal income tax credit equal to percentage of federal EITC

- 9% of federal credit
- 12% if taxpayer has dependent under the age of 3 at close of tax year

To qualify for credit:

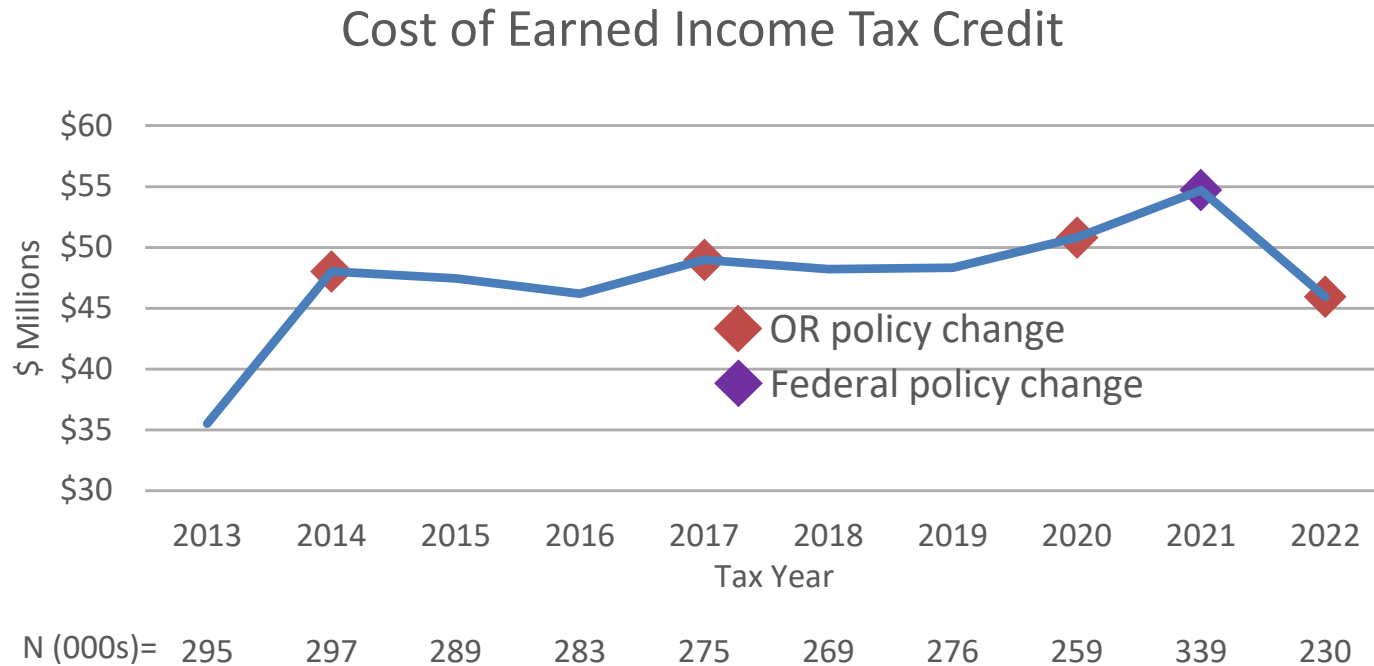
- Have earned income (e.g., wages, tips, self-employment income)
- Childless workers claiming credit must be aged 25-64
- Investment income below specified amount (indexed, \$11,600 in 2024)
- Claimed children must meet relationship, residency, and age requirements
  - Child relationship to tax filer (son, daughter, step-child, foster child, brother, sister, or descendent of such a relative)
  - Child must share residence with taxpayer for more than half the year
  - Child age < 19 (24 if a full-time student) or be permanently & totally disabled

# Oregon EITC Amount (9% credit)



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

# Cost of Oregon's EITC



- Preliminary TY 2023 cost expected to be about \$52M
- Corresponding TY 2022 federal EITC amount was \$439.4M
- Total OR EITC amount about 10.4% of federal amount




# Recent EITC History

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

<b>Tax Year</b>	<b>Description of Policy Change (includes federal changes incorporated into Oregon's credit)</b>
<b>2014</b>	OR EITC increased from 6% to 8% of federal amount
<b>2017</b>	OR EITC increased to 11% for taxpayers with child under age 3 making Oregon's credit two different percentages of federal, 8% or 11%
<b>2020</b>	OR EITC increased to 9% and 12% respectively
<b>2021</b>	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.
<b>2022</b>	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%
<b>Total Full-Year Filers</b>	<b>206,840</b>	<b>\$210</b>	<b>\$43.0</b>	<b>100%</b>

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 <sup>1</sup>	5,122	\$1,597,264	\$312

<sup>1</sup>Returns processed through 11/1/2024

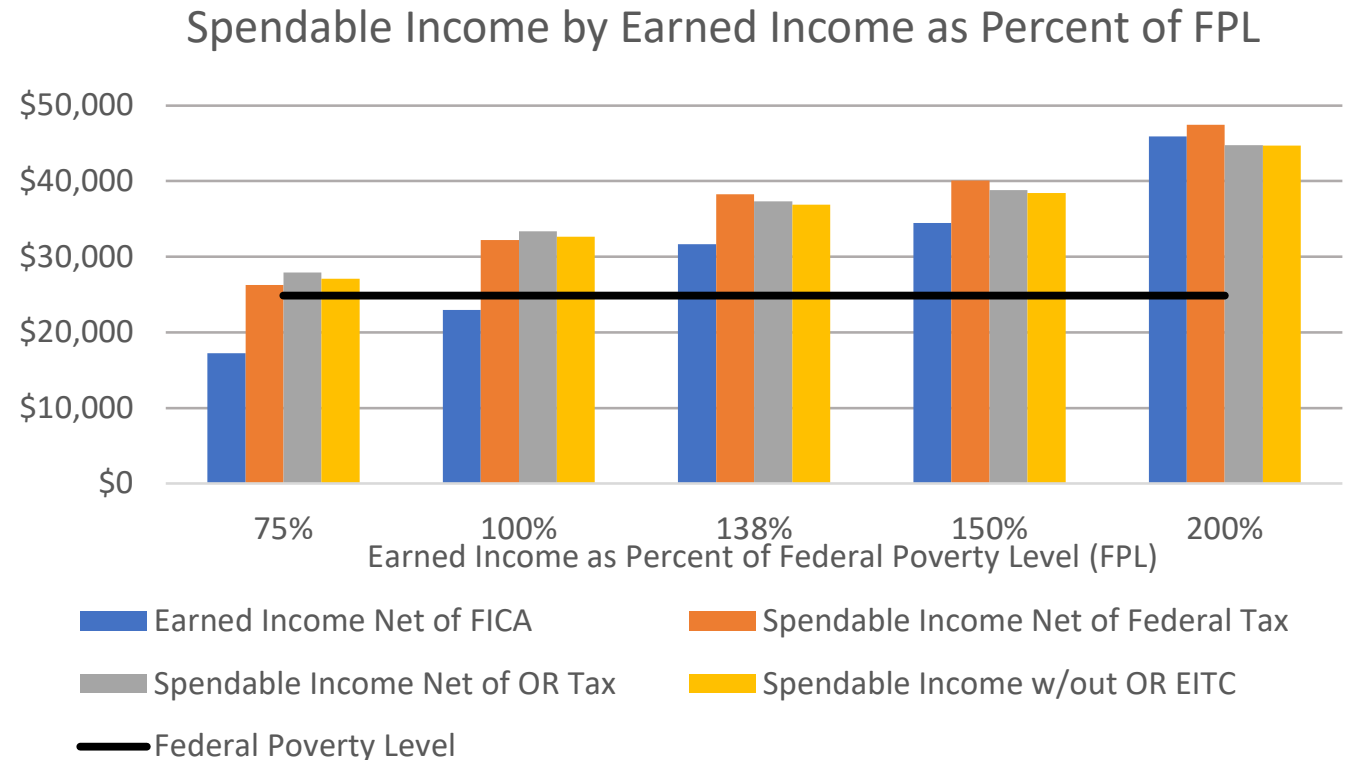
Source: DOR

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% 
<b>Total</b>	<b>43,029,000</b>	<b>100%</b>

Source: DOR PIT Statistics 2022

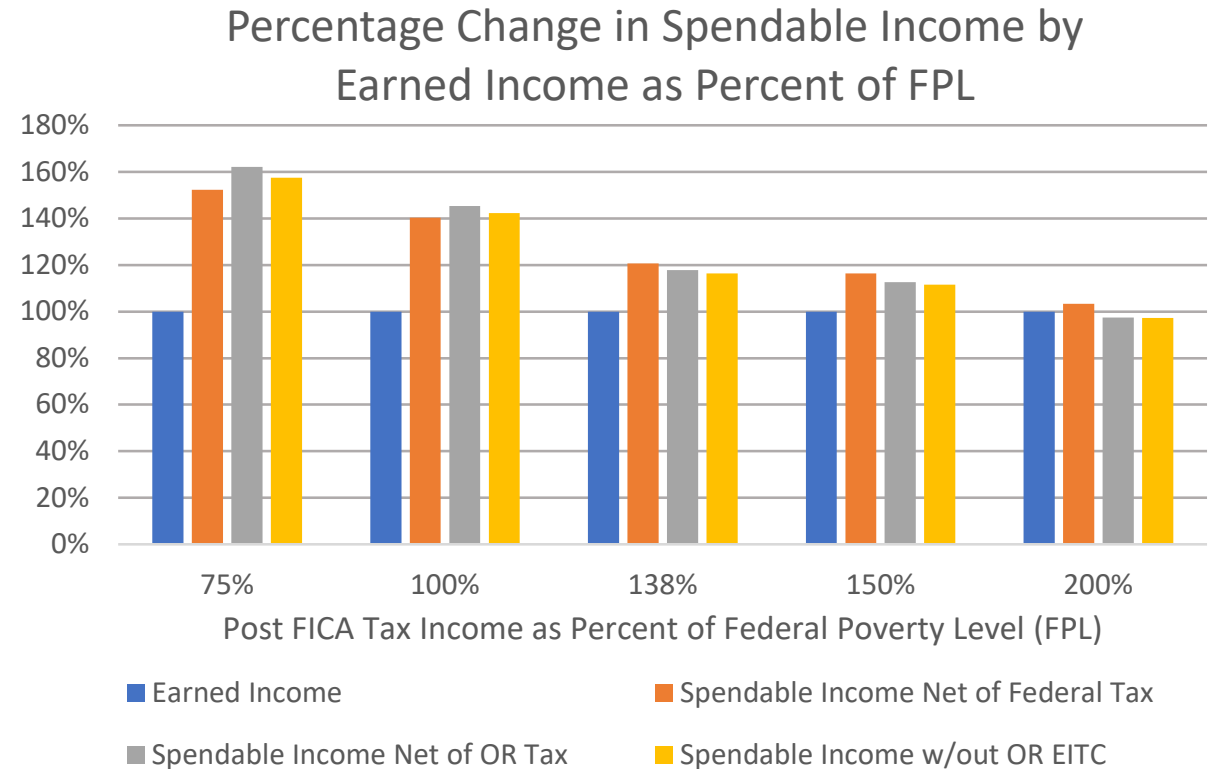
# After Tax Income, the EITC & Poverty (pages 11-12 in report)

- Example is for single (HOH) taxpayer with two qualifying children
- Federal EITC increases after tax income
- Taxpayers below federal poverty level (FPL):
  - Oregon EITC increases after tax income
- Taxpayers above FPL:
  - OR EITC decreases OR tax liability



# After Tax Income & the EITC – Percentage Change

- Similar information as previous slide, but percentage change in after tax income from EITC
- Greatest percentage increase in after tax income for taxpayers below 75% of FPL
- Value of EITC declines as taxpayer income as % of FPL increases



# EITC Utilization (pages 13-18 in report)

- EITC utilization is an estimate of EITC use compared to eligibility

$$\begin{aligned} & \text{EITC Utilization Percentage} \\ &= \frac{\text{EITC Use}}{\text{EITC Eligibility}} \end{aligned}$$

- Past in-depth studies conducted
  - 1994 - Scholz (Nat. Tax Journal)
  - 2001 - Gov. Acct. Office (GAO)
  - 2009 - IRS / Census Bureau (Plueger, 2009)
- Annual participation rates estimated nationally & by state
  - U.S. Census Bureau collaboration with IRS

Estimated EITC Eligible Population Rate U.S.   Tax Year 2005		
Filing Status	EITC Status	Elig. Percent
Filed	Paid	75.3%
	Not Paid	8.7%
Did Not File	Not Paid	16.0%
Total		100%

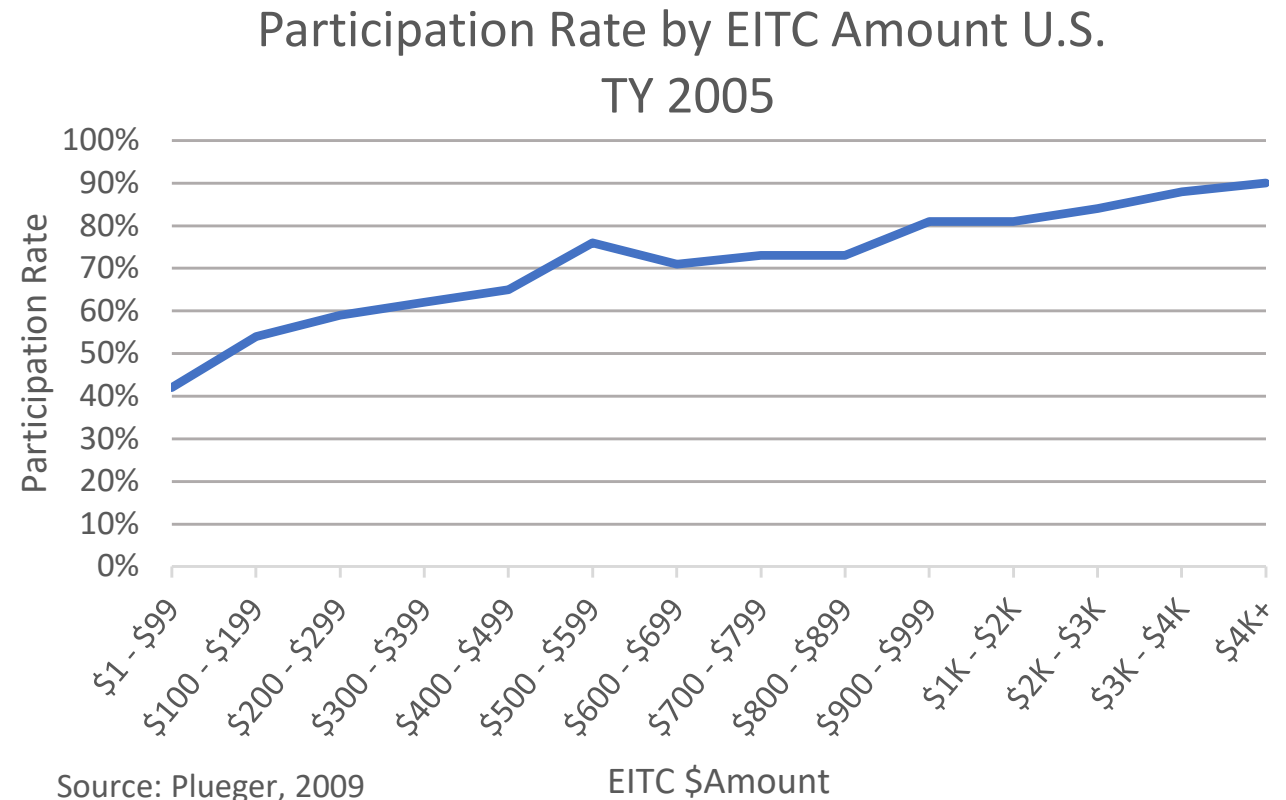
Source: Plueger, 2009

# EITC Utilization Continued

- Greater EITC participation associated with larger credit value

Estimated Participation Rate by Number of Qualifying Children U.S.   Tax Year 2005	
Qual. Children	Participation
0	55.6%
1	73.6%
2+	85.9%
<b>Total</b>	<b>75.3%</b>

Source: Plueger, 2009



# Increasing EITC Participation – Studies Finding Increase

Description	Outcome
<p><u>IRS Reminder Notices</u> IRS sends notices &amp; EITC claiming worksheets to taxpayers that have filed but did not claim the EITC. IRS determines taxpayer likely to qualify.</p>	<p>Study results of tax year 2014 (TIGTA, 2018)</p> <ul style="list-style-type: none"> <li>• 21% of taxpayers estimated to potentially qualify for EITC received a notice</li> <li>• About half of taxpayers responded and claimed EITC</li> <li>• 0.7% percentage point increase in numerical participation</li> <li>• 0.2% percentage point increase in EITC amount claimed</li> <li>• 0.9% percentage point increase in participation rate for taxpayers filing a return</li> </ul>
<p><u>One-Time IRS Letter</u> One-time (targeted) information letter to previous non-filers from IRS describing availability of free assisted tax preparation methods (both in person and software).</p>	<ul style="list-style-type: none"> <li>• Individuals receiving letter were 0.7% more likely to file a return than control group</li> <li>• Letters increased the share of individuals claiming the EITC</li> <li>• Increases in filing and EITC take-up concentrated in initial weeks following letters</li> </ul>
<p><u>IRS Reminder Notice</u> One-time targeted IRS notices (postcards) sent to non-filing individuals.</p>	<ul style="list-style-type: none"> <li>• Increase in filing of 0.5 to 1.0 percentage points compared to control group</li> <li>• Increased filing caused increase in EITC, but relative EITC claim amount the same</li> <li>• Taxpayers did not display increased filing in subsequent year</li> </ul>
<p><u>Virginia – Public Assistance Recipients</u> Mailer and automated phone call to individuals receiving public assistance identified as likely EITC recipients</p>	<ul style="list-style-type: none"> <li>• Conducted over two years, mixed results</li> <li>• Increase in filing in both years, increase specific to EITC in one-year</li> </ul>

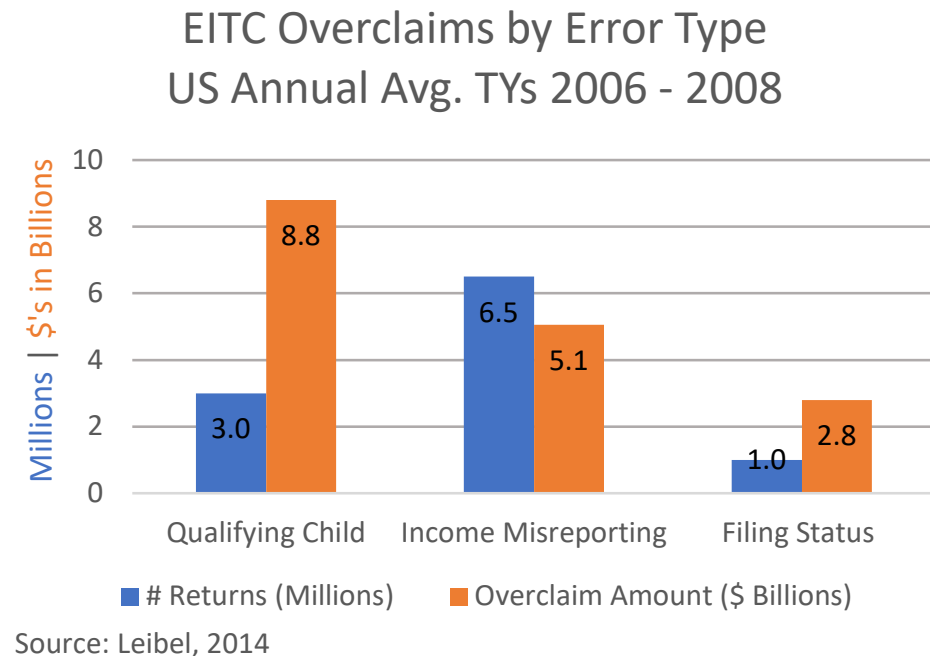
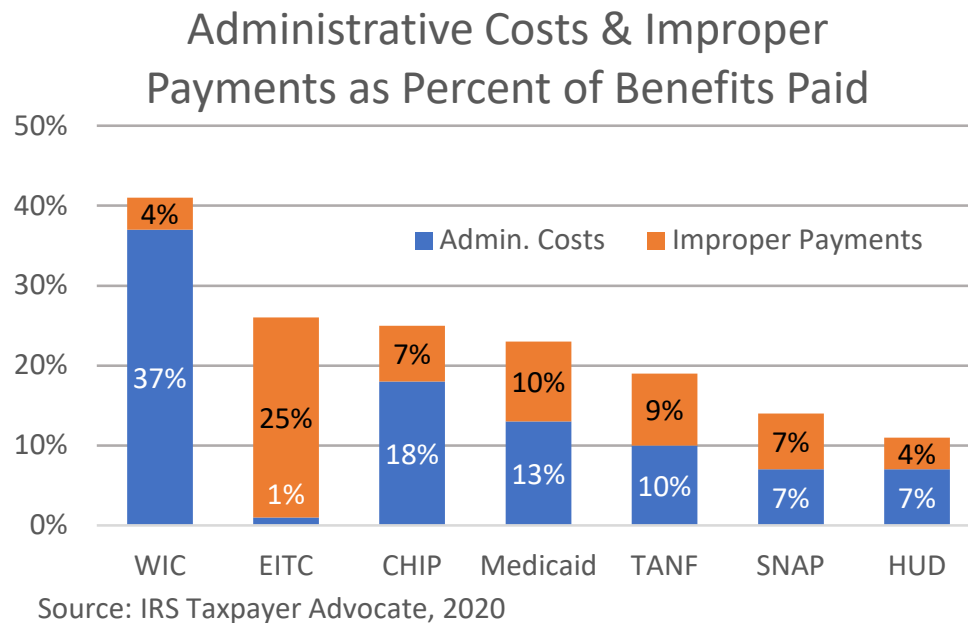
# Increasing EITC Participation – No Change Found

Description	Outcome
<u>Employee Awareness Notices</u> Examination of states requiring employers to provide EITC information to employees	<ul style="list-style-type: none"><li>• No evidence that EITC notification laws increase EITC participation</li></ul>
<u>California – “Nudge” Communications</u> Six controlled trials in 2018 and 2019. Nudges directed to non-filing population identified as likely recipients of EITC (mailers & text messages sent from different sources)	<ul style="list-style-type: none"><li>• None of six trials found increase in EITC take-up</li><li>• Engagement found to be greater when communication comes from tax agency and is more personalized and formal</li></ul>

# EITC Administration and Compliance (pages 21-24 in report)

- EITC eligibility is self-determined when filing tax return
  - Low administrative costs, relatively higher improper payments

*Improper Payments = Overclaims + Underpayments – Claims Protected or Recovered*





[Link](#) to full 2025 tax credit report.

