

Strengthen the Earned Income Tax Credit (EITC)

The Earned Income Tax Credit (EITC) is the largest anti-poverty program in the Oregon tax code, helping more than 250,000 working families struggling to make ends meet. The state credit is 9% of federal EITC, except for families with children under age 3, who receive 12% of the federal credit. The EITC is only available for families with earned income, and phases out at about \$65,000 in income.



Benefits of a Stronger EITC

- **Enhance economic security.** A quarter million Oregon working families receive a larger tax refund or smaller tax bill due to the state EITC, resources that can help them catch up with bills, fix a broken car so they can get to work, or meet basic needs.
- **Reduce poverty.** The federal EITC lifts 68,000 Oregonians, including 34,000 children, out of poverty. The Oregon EITC boosts this effect by providing an additional match.
- **Improve child welfare.** Research shows that tax credits such as the EITC improve child health, boost school performance, promote college enrollment, and increase earnings when children become adults.
- **Support Oregon's economy.** Families that get the EITC tend to spend the money quickly at local businesses. Researchers estimate that each EITC dollar results in \$1.40 to \$1.58 in additional economic activity.
- **Increase labor force participation.** The EITC was originally designed to promote work among low-income families, and research indicates it is successful.
- **Invest in rural communities.** The federal EITC disproportionately flows to rural working families. Strengthening the EITC, as well as expanding eligibility, will also deliver greater benefits to rural parts of Oregon.
- **Improve racial equity.** For families eligible for the full benefits of the EITC, the tax credit helps reduce long-standing inequalities by race.



Ways to strengthen the EITC

House Bill 2958: \$65 million estimated annual cost

- **Raise the EITC:** Increase the EITC for families with children under 3 to 25% of the federal credit and 20% for other eligible families.
- **Expand EITC eligibility to all working adults:** No adult should be excluded from the EITC because of their age. Currently, only childless adults between ages 25-65 are eligible, but working adults outside of those age limits also have bills to pay.
- **Improve the design of the credit:** The newly created Oregon Kids' Credit included two best practices in tax credit design the EITC should replicate. First, protect the EITC from garnishment so the resources flow to meet the basic needs of families. Second, send the benefits out quarterly, rather than once a year, as soon as the federal government permits it.

Examples of the impact of improvements to the credit

- Married family earning \$30,000 per year with three children (ages 2, 6, and 10)
 - State EITC currently is about \$840
 - The proposal would increase it to
 - about \$1,750.
- Adult worker (aged 23) earning \$10,000 per year with no children
 - State EITC currently is \$0, as this worker is excluded from the credit.
 - The proposal would make them eligible and they would receive nearly \$120.



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