

EITC Information on Tax Credit Committee Questions

The Earned Income Tax Credit (EITC) helps Oregonians who earn very low wages. The majority of people who claim the EITC are working families with children. In Oregon, people can claim both the federal and the state EITC. Both tax credits help working families make ends meet and are part of a critical pathway to stability, helping families address financial crises, remain stable in housing, and move out of poverty.

The Earned Income Tax Credit (EITC) is good federal and state Public Policy

The EITC provides a pathway out of poverty for low-income working families in Oregon. By allowing low-income workers to keep more of their wages, they can better meet their own basic needs such as housing, transportation, and food.

The EITC not only benefits families but local economies as well. Every Oregon legislative district has residents who receive the EITC. On average, each senate district in Oregon had 8,873 households receiving the federal EITC in 2010. **Those returns brought an average of \$17.3 million into each district.** These dollars are spent in communities across the state. Furthermore, the EITC encourages work and boosts school achievement for low-income students, leading to a more skilled workforce.

And, in a report released last year in the Sociological Review, a long-term study linked families accessing the EITC with improved infant health and well-being, leading to reduced negative outcomes later in life.

The EITC is too important to let it expire

The Oregon EITC, which supplements the federal EITC, is set to expire December 31, 2013, resulting in a tax increase for over 250,000 families in Oregon. Too many hardworking parents don't earn enough to pay rent and put food on the table. Nearly half of renters can't afford a two-bedroom apartment at market rents. These families don't have access to opportunity and pathways out of poverty. Too often, one small event can trigger a series of shortfalls and lead to a financial crisis.

Hardworking families deserve an opportunity to get ahead. The EITC is one of the most important and most effective programs for low- and moderate-income families. Every year millions of Americans use this credit to help pay rent, buy groceries, repair the car, get out of debt, or start saving for the future.

The EITC promotes economic development and job creation

The EITC promotes economic development and job creation two ways: first by

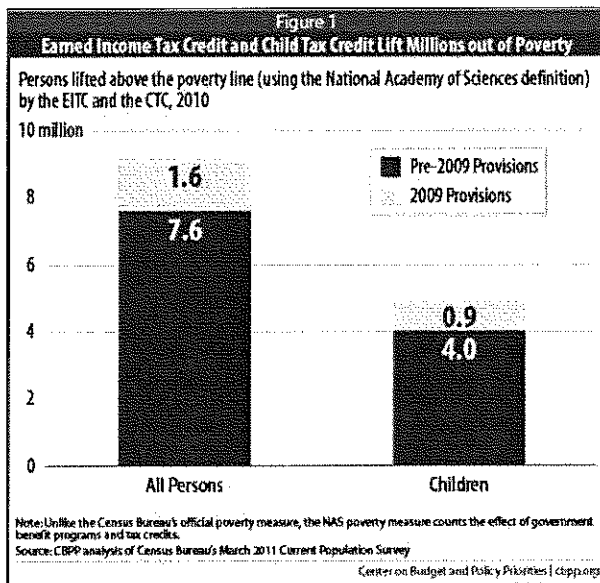
encouraging work and making work pay; and second, by providing low-income working families with a refund which is immediately spent in their local community, further supporting local jobs and economies. The EITC has been especially important to single-mothers and some data suggests that it was more instrumental in transitioning women from welfare to work than the welfare reform changes in the 1990's.

According to California economist David Neumark; **”...using the EITC to create jobs confers four advantages. First, the EITC does not create stigma effects. Second, it is easy and inexpensive to administer. Third, worker subsidies such as the EITC do more to help low-income families. Fourth, there is clear evidence that the EITC increases employment.”**

[<http://www.frbsf.org/publications/economics/letter/2012/el2012-08.html> 11/7/12]

“The EITC ensures that businesses’ customer bases have more to spend, thus helping arrest – and begin to reverse – the downward spiral of layoffs and cutbacks.”¹ Furthermore, data shows multiplier effects for each EITC dollar returned to local taxpayers; such as \$1.07 in Nashville; \$1.40 in Fresno; \$1.58 in San Antonio; and \$1.67 in Michigan.

The EITC benefits low-income working families



The EITC is targeted to low-income working families. Only *earned* income is eligible for refund. For low-income working families with children, the combined federal and state EITC is a lifeline, lifting many families above the poverty line.

The maximum Oregon credit for a family with 3 or more children is \$353 this year. For families with fewer children the income limits and credit amounts are lower. There is

¹ The Earned Income Tax Credit: Good for Our Families, Communities and Economy. January 2012, a report by the National Community Tax Coalition; page 5.

also a very small EITC for working adults without minor children with low incomes, for which the maximum state credit is \$29.

Effects of Lowering or Ending the Oregon EITC

The Oregon EITC is 6% of the federal EITC. The Oregon EITC is critical not only to offset Oregon's regressive tax system, but also to further help lift Oregon families out of poverty. Allowing Oregon's EITC to expire would add to the tax bill and increase the number of working families living in poverty that have to pay Oregon income taxes. For instance, a single mom with two kids would pay about \$140 in additional income taxes, leaving less money for food and other basic necessities.

For tax year 2011, 24 states and the District of Columbia offer state-level earned income tax credits (EITCs) for their residents. The vast majority of these are refundable. Louisiana offers the lowest rate at 3.5% of the federal EITC; the District of Columbia offers the highest refundable rate at 40% of the federal EITC. Oregon's rate of 6% ranks approximately 6th from the bottom lowest of these 24 states.

The EITC is the best tool to target tax relief to low-income working families. Over ninety-nine percent of the revenue goes to families earning less than \$44,100.

The EITC is also cost-effective. Federally, **Administrative costs amount to an estimated 0.5 percent of EITC benefits** (Internal Revenue Service, 2003). **This compares to about 16 percent of the budget for traditional transfer programs** (U.S. Congress House Ways and Means Committee, 2004). (page 694). Likewise, Oregon's EITC costs very little to administer.

Are there any other tax subsidies or incentives that are available that help alleviate poverty?

The Child Tax Credit is a very important tax incentive for low-income families. Also, there are work incentive programs and tax credits for employers who hire unemployed or other categories of workers.

How can the EITC be improved?

Increasing Oregon's EITC rate as a percentage of the federal EITC from 6% to 18% would:

- Cut taxes for one in seven Oregon households. It would do so in a targeted way, helping low-income working families.

- Boost the earnings of the average EITC household by about \$215 a year. For a family of four living at the poverty line (an income of about \$22,000), it would mean about \$587 extra income each year.
- Benefit over 250,000 households from all corners of Oregon.
- Put state tax dollars into Oregon communities. EITC dollars are spent quickly and locally.

(OCPP <http://www.ocpp.org/resources/eitc/> 11/7/12)

Improving participation rates in Oregon would bring more federal dollars into local communities and would help lift more Oregonians out of poverty.

State support for outreach and tax assistance programs would help increase participation rates. Furthermore, these assistance, outreach and education programs are important to helping families who qualify for EITC to not overspend on tax preparation or be taken advantage of by predatory tax refund loan schemes.



Helping Working Families Meet their Basic Needs with the Earned Income Tax Credit

We have an opportunity this session to strengthen an important pathway out of poverty for low-wage families.

The Earned Income Tax Credit (EITC) helps working families with low incomes meet their basic living needs including food and housing through a tax refund.

The EITC also promotes economic development and job creation by providing low-income working families with a refund, which is immediately spent in their local community, further supporting local jobs and economies.

The EITC can only be claimed by people who earn income through work, and pay taxes, including Social Security and Medicare.

The EITC helps kids do better in school, by helping make sure they have a stable place to call home and food on the table. Long-term studies show that supplementing the earnings through the EITC improves school performance of young children. (1)

The modest amount most families receive through the EITC allows them to pay down debt or to put aside funds for emergencies. With more family income through refundable credits, children in the family are likelier to attend college and earn more as adults.(2)

Oregon's refundable credit, like the federal credit, helps to offset other taxes, such as social security, Medicare, and gas taxes.

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We support both the extension and expansion of the State EITC through SB 326, SB 507, HB 2477, and/or HB 2850.

(1)Gordon L. Berlin, remarks at national Summit on America's children, May 22, 2007.

(2)Raj Chetty, John N. Freidman, and Jonah Rockoff, "New evidence on the Long-term Impacts of Tax Credits," Statistics of Income Paper Series, November 2011

(3)<http://www.frbsf.org/publications/economics/letter/2012/el2012-08.html> 11/7/12