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Before the Joint Committee on Tax Credits
In support of HB 2477 and SB 326
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At the March 13 public hearing on HB 2477 and HB 2850 in the House Committee on Human Services and Housing, committee members requested examples of how the Oregon Earned Income Tax Credit (EITC) impacts families at different income levels. Today I will share some examples.

These examples are based on 2012 tax law and the 2012 Federal Poverty Guidelines. Each assumes that the families take the standard deduction and file a joint return if the family has two parents present. Other income tax credits or deductions are discussed individually, when appropriate.

"Oregon City family"

The first example illustrates how the EITC would help the "Oregon City family" discussed by the Department of Housing and Community Services during the March hearing. The department described that family as follows:

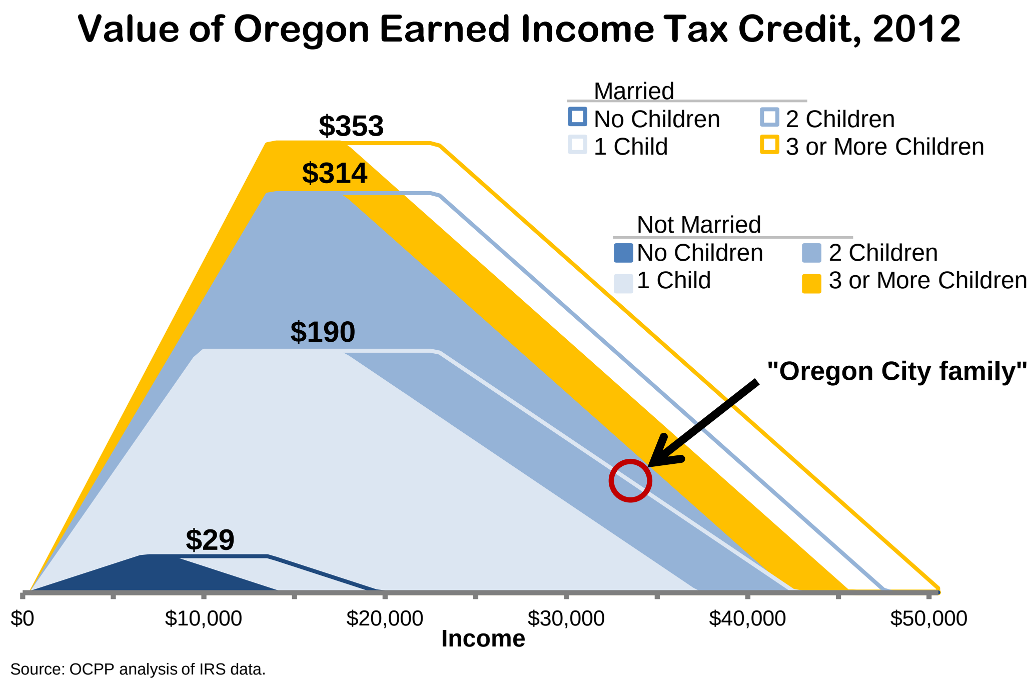
> The family is "a typical renter family in Oregon City. It's a young couple with a small child. Sally works at a clothing store and Bob as a bus driver. Combined they take home $2,447 a month, and their two bedroom apartment costs $912 a month, food about $500, then they have to pay $600 a month for child care and that group medical insurance Sally gets through work leaves them with big co-pays. They share one car, and Bob takes the bus to work, which takes him over an hour each way."

Based on their 2012 income and family size, here is how Oregon's EITC would apply to this family:

Annual Income		$32,955
Estimated Oregon Income Tax before EITC		$1,608
Oregon EITC at current 6%		$88
	Estimated Net Oregon Income Tax	$1,520
Oregon EITC at Governor's recommended 8%		$117
	Estimated Net Oregon Income Tax	$1,491
Oregon EITC at 18%		$264
	Estimated Net Oregon Income Tax	$1,344

Since Sally and Bob are working to support a young child, they would also likely qualify for the Oregon Working Family Child Care Credit. Based on their child care expenses ($600 per month; $7,200 per year), income and family size, their childcare credit would be $2,880.

However, this Oregon City family is not the prime target of the EITC. They actually earn too much to qualify for the maximum credit. As you can see on the following chart, their income places them well into the phase out range of the Oregon EITC.



The EITC targets greater assistance to working families with children living closer to the poverty line. Consider the following examples.

Married Couple, 1 child, earning poverty wages

Modifying the previous example, imagine that Bob got small raise but Sally lost her job. After not being able to find employment, Sally decides to stay home to care for their child to eliminate the child care expenses. Their annual family income is now $19,090 — which just so happens to be the poverty line for a family of three. Here is how Oregon's EITC could impact them now:

Annual Income	$19,090
Estimated Oregon Income Tax before EITC	$377
Oregon EITC at current 6%	$190
Estimated Net Oregon Income Tax	$187
Oregon EITC at Governor's recommended 8%	$254
Estimated Net Oregon Income Tax	$124
Approximate EITC percent needed for $0 in Net Oregon Income Tax	12%

Single Parent, 1 child, earning poverty wages

In an alternate scenario, imagine that Bob is no longer in the picture and Sally is a single working mother. Her child is now in school during the day so there are no child care expenses.

However, her family still struggles to get by — she earns just enough to live at the poverty line for a family of two. The Oregon EITC can make a difference:

Annual Income		$15,130
Estimated Oregon Income Tax before EITC		$331
Oregon EITC at current 6%		$190
	Estimated Net Oregon Income Tax	$141
Oregon EITC at Governor's recommended 8%		$254
	Estimated Net Oregon Income Tax	$78
Approximate EITC percent needed for $0 in Net Oregon Income Tax		11%

What does a family look like that needs full refundable credit?

Thus far, in each example the family has still had to pay Oregon income taxes after the state EITC is taken into account. However, the EITC is refundable. This means that when the value of the credit exceeds a taxpayer's liability, the remainder is refunded to them. This generally applies to working families with very low incomes. Below are two examples.

Single parent, 1 child, earning below-poverty wages

Now imagine, due to the slower than expected economic recovery, Sally lost her job and is only able to find a replacement job that pays minimum wage. And, unfortunately, business is slow and they only offer her 24 hours per week. She ended up earning just under $11,000 in 2012 (a little less than 75% of the federal poverty level). As you can see below, the value of Sally's EITC would exceed her tax liability so she would receive the remainder as a refund. This would allow her to use this money to help make ends meet.

Annual Income		$10,982
Estimated Oregon Income Tax before EITC		$41
Oregon EITC at current 6%		$190
	Estimated Net Oregon Income Tax	*-$149*
Oregon EITC at Governor's recommended 8%		$254
	Estimated Net Oregon Income Tax	*-$213*

Married couple, 2 children, 1 full-time minimum wage worker

Picture Bob and Sally's next door neighbors. They are a married couple with two children. One parent works in a minimum wage job while the other stays home to care for the children. Fortunately, there are enough hours for full-time work all year, but the family still struggles to meet their basic needs. Working full-time, year-round in 2012, they earned $18,304 in 2012 — $4,746 below the poverty line for a family their size. This family would also receive a refund for the portion of their Oregon EITC that exceeded their state income tax liability, allowing them to better meet their basic needs.

Annual Income		$18,304
Estimated Oregon Income Tax before EITC		$139
Oregon EITC at current 6%		$314
	Estimated Net Oregon Income Tax	*-$175*
Oregon EITC at Governor's recommended 8%		$419
	Estimated Net Oregon Income Tax	*-$280*

These examples illustrate that Oregon's Earned Income Tax Credit makes a difference for working families living at or near the poverty line. Currently at 6 percent of the federal credit, Oregon's EITC provides a small boost to these working families. The credit would be even more effective at helping families make ends meet if the legislature followed the Governor's recommendation and increased Oregon's EITC to 8 percent of the federal EITC. Further increasing the credit would have an even more meaningful impact.

This small investment in working families with children can make a big difference in the lives of individual families that receive the credit and in communities in every corner of Oregon. That helps lift up not just these families and their children, but our state as a whole.