HB 3120 STAFF MEASURE SUMMARY

House Committee On Revenue

Prepared By: Kyle Easton, Senior Economist
Meeting Dates: 2/18

WHAT THE MEASURE DOES:

Extends sunset of Oregon's earned income tax credit by six years, from January 1, 2026 to January 1, 2032. Applicable to tax years 2026 through 2031, increases Oregon EITC percentage of federal EITC from 9% to 12%, from 12% to 18% for taxpayers with youngest dependent under the age of three at the close of the tax year, and from 9% to 15% for taxpayers with youngest dependent equal to or greater than three but younger than six. Takes effect on the 91st day following adjournment sine die.

ISSUES DISCUSSED:

EFFECT OF AMENDMENT:

No amendment.

BACKGROUND:

Taxpayers allowed to claim the federal earned income tax credit (EITC) are allowed an Oregon EITC equal to either 9% or 12% of the federal credit amount allowed for the corresponding tax year. To claim the 12% credit, an Oregon taxpayer must have a dependent under the age of three at the close of the tax year. The Oregon EITC is a refundable credit, meaning the credit is first used to reduce a taxpayer’s tax liability potentially to zero with any remaining credit amount being paid to the taxpayer in the form of a tax refund. As Oregon’s credit is a percentage of the federal credit, Oregon’s credit inherently reflects the design of the federal EITC as of a specific date.

The EITC is a refundable tax credit available to eligible individuals of comparatively low earnings. The EITC amount is calculated on formulas that consider earned income, number of qualifying children, marital status and adjusted gross income (AGI). The EITC initially equals a fixed percentage (credit rate) of earned income until the credit reaches its maximum amount. The EITC then remains at its maximum amount (commonly referred to as the plateau) for a specified range of earned income. Following the plateau, the credit then decreases in value to zero at a fixed rate (phase-out rate) for each additional dollar of income above the phase-out threshold. Additional background and analysis of Oregon's EITC can be found in LRO's 2025 Tax Credit Report.