

Oregon's Earned Income Tax Credit (EITC)

Joint Committee on Tax Expenditures

5/7/25



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Originally enacted in 1970's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?

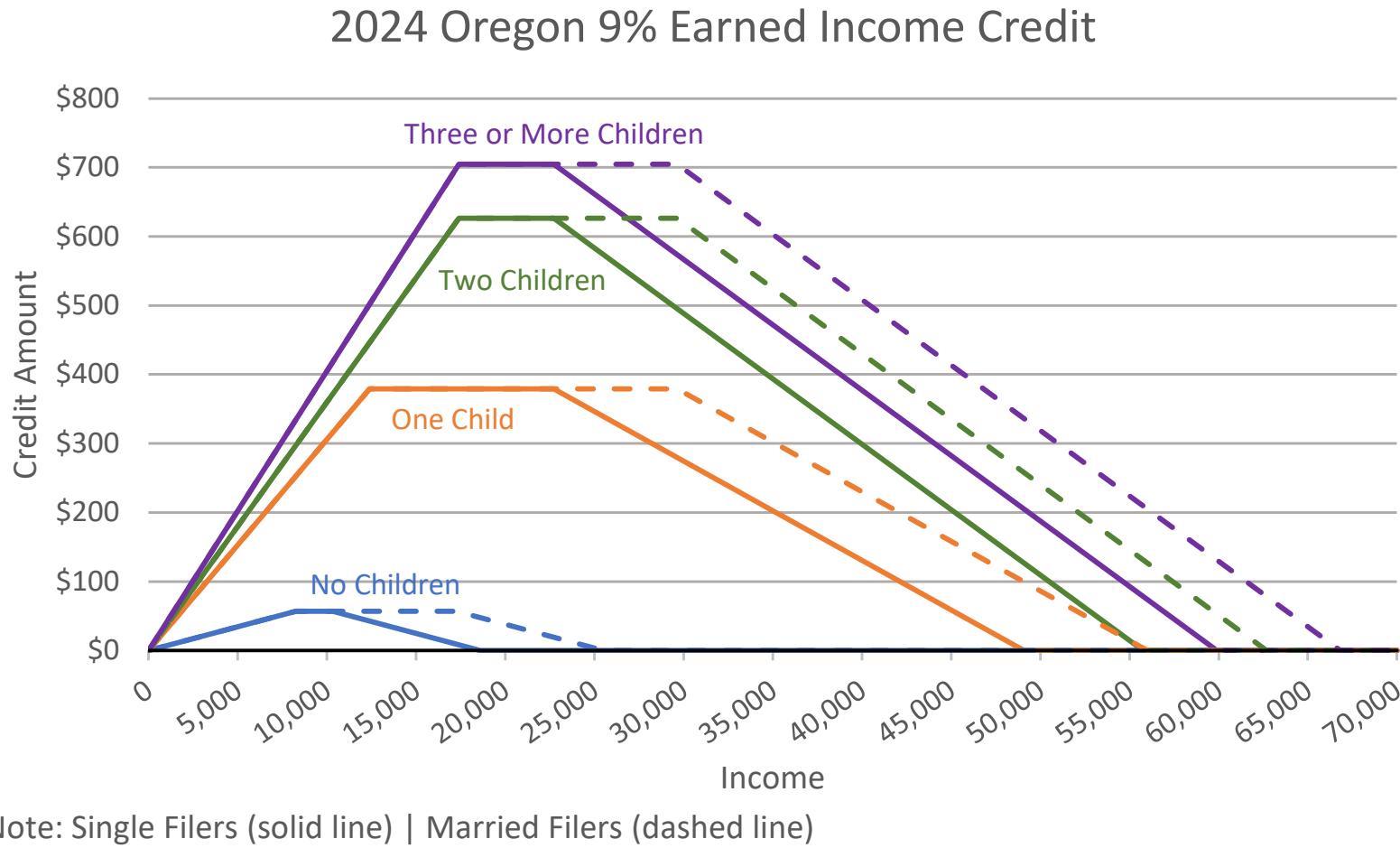
Refundable personal income tax credit equal to percentage of federal EITC

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

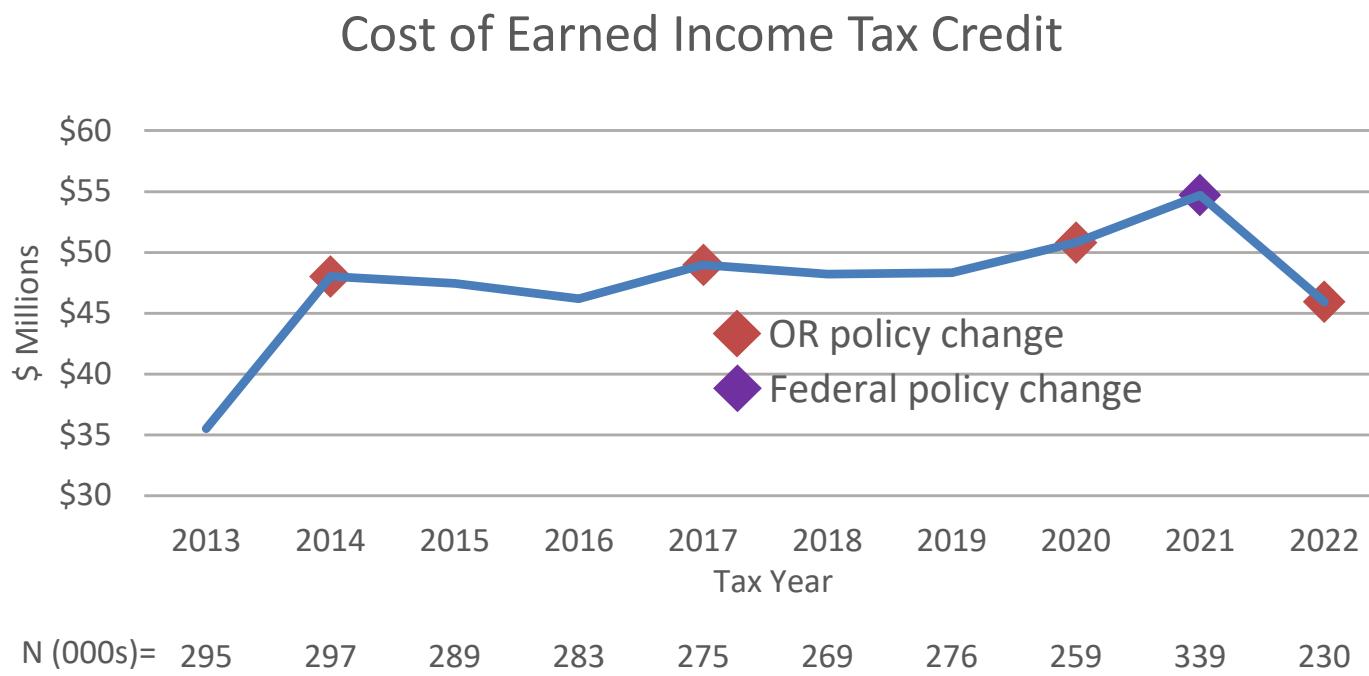
To qualify for credit:

- 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)



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

Tax Year	Description of Policy Change (includes federal changes incorporated into Oregon's credit)
2014	OR EITC increased from 6% to 8% of federal amount
2017	OR EITC increased to 11% for taxpayers with child under age 3 making Oregon's credit two different percentages of federal, 8% or 11%
2020	OR EITC increased to 9% and 12% respectively
2021	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.
2022	OR EITC qualification expanded to include qualification for taxpayers/children using ITIN

Who Claims the EITC

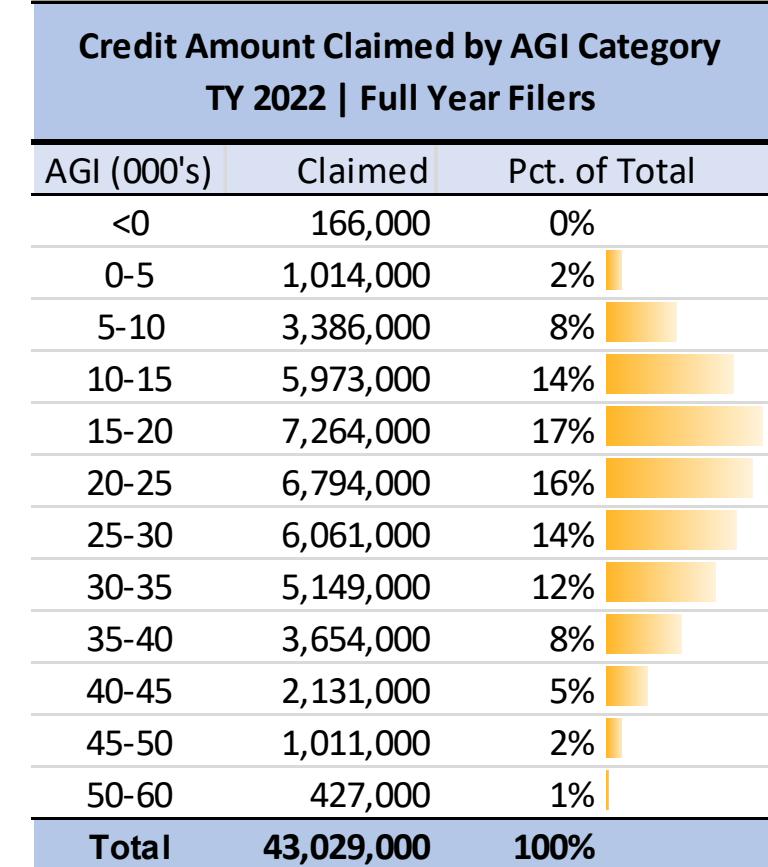
Oregon Earned Income Tax Credit 2022 Personal Income Tax Filers				
Income Group of Full-Year Filers	Number of Filers Using Credit	Avg. Revenue Impact of Credit	Revenue Impact (\$ millions)	Percent of Revenue Impact by Income Group
< \$19,400	107,050	\$160	\$16.8	39% 
\$19,400 - \$40,400	72,200	\$320	\$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%
Total Full-Year Filers	206,840	\$210	\$43.0	100%

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 ¹	5,122	\$1,597,264	\$312

¹Returns processed through 11/1/2024

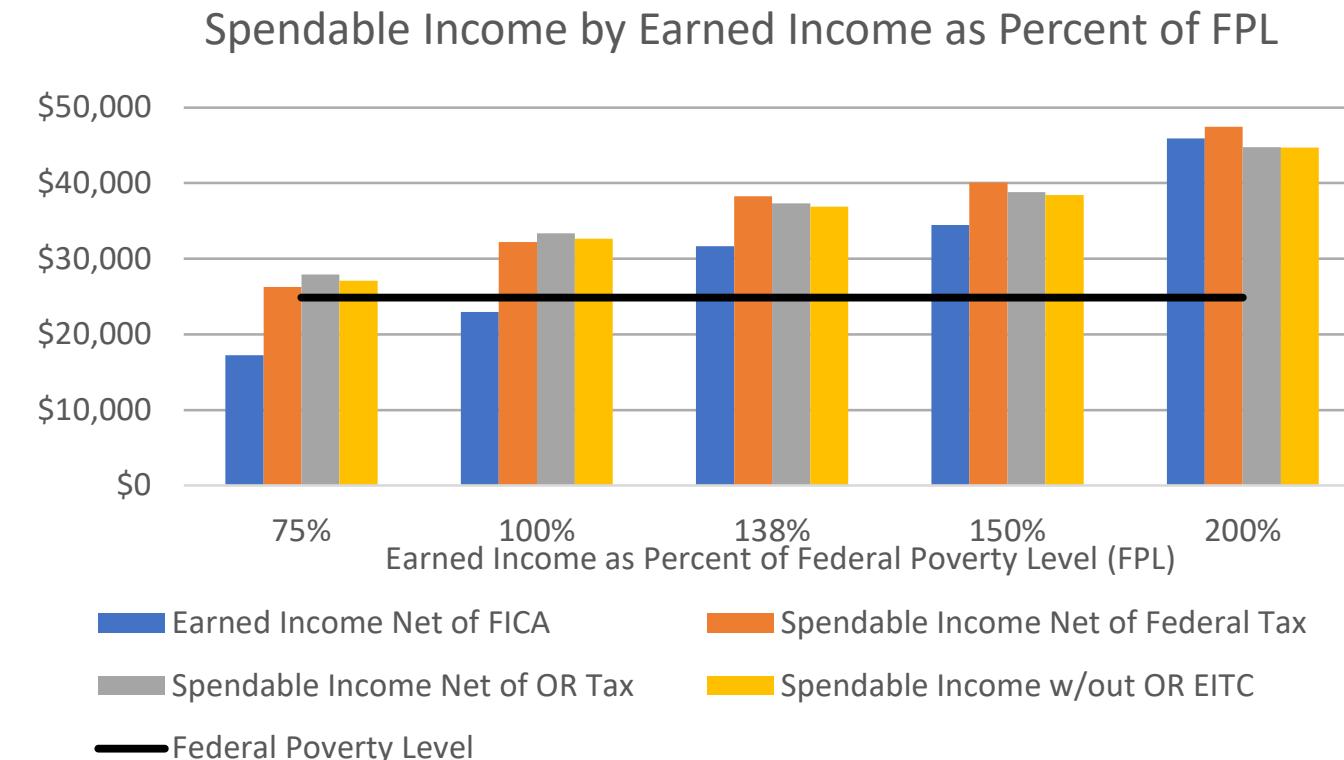
Source: DOR



Source: DOR PIT Statistics 2022

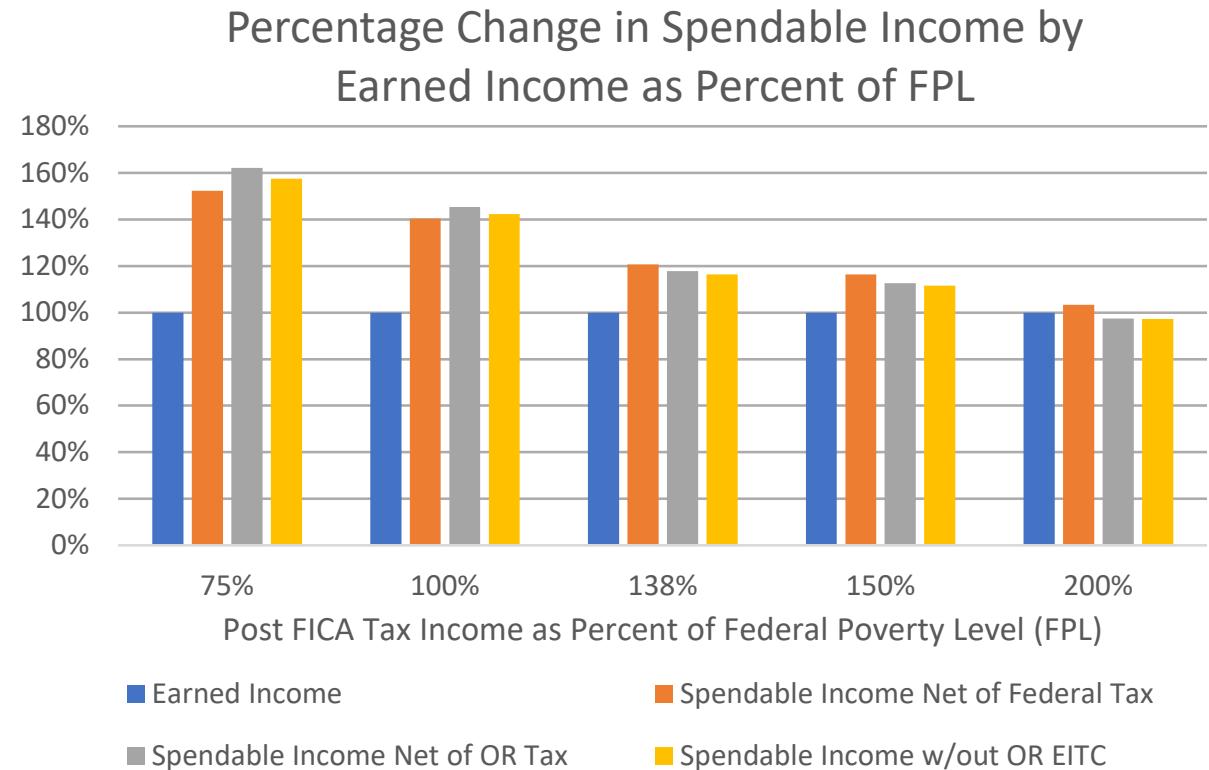
After Tax Income, the EITC & Poverty (pages 11-12 in report)

- 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

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

- 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%

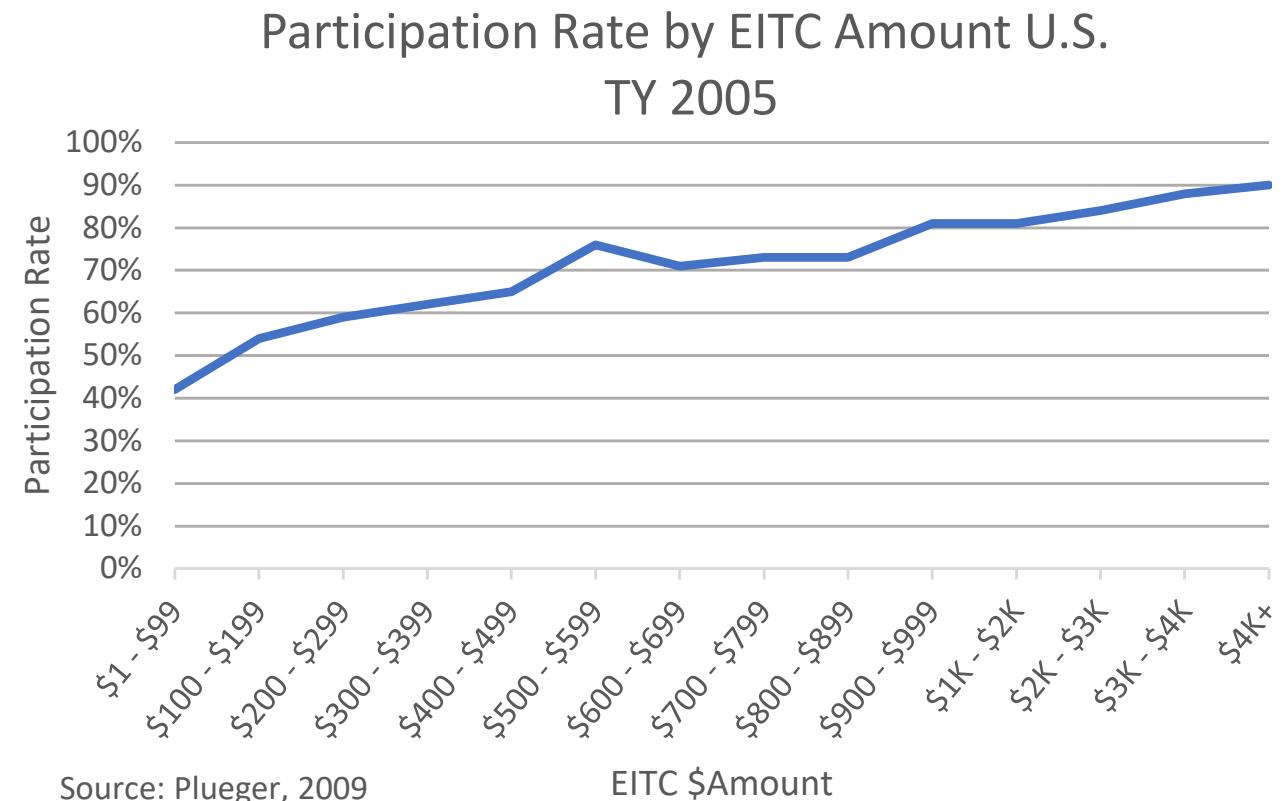
Source: Plueger, 2009

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%
Total	75.3%

Source: Plueger, 2009



Increasing EITC Participation – Studies Finding Increase

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

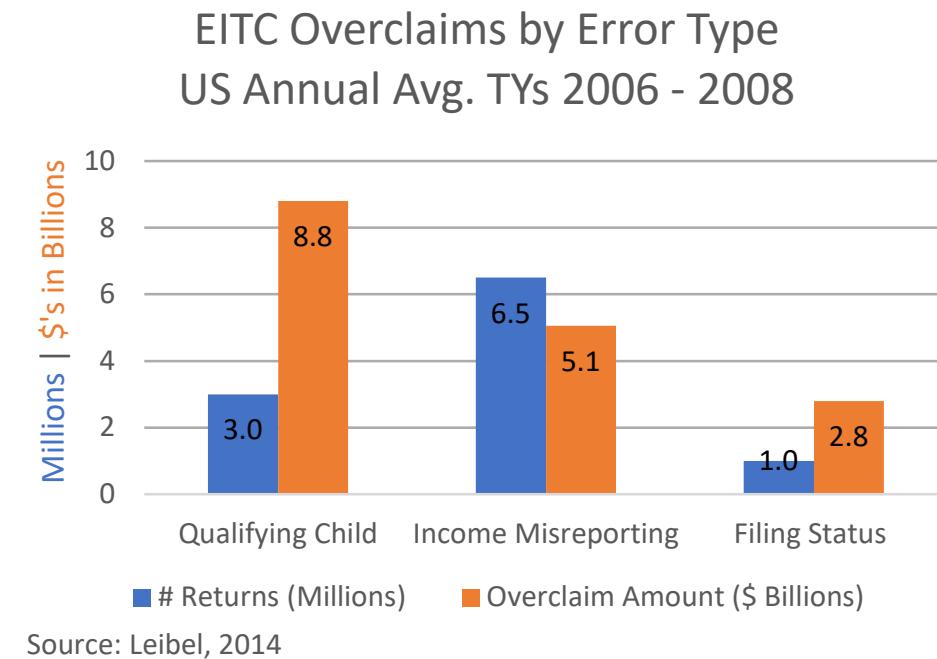
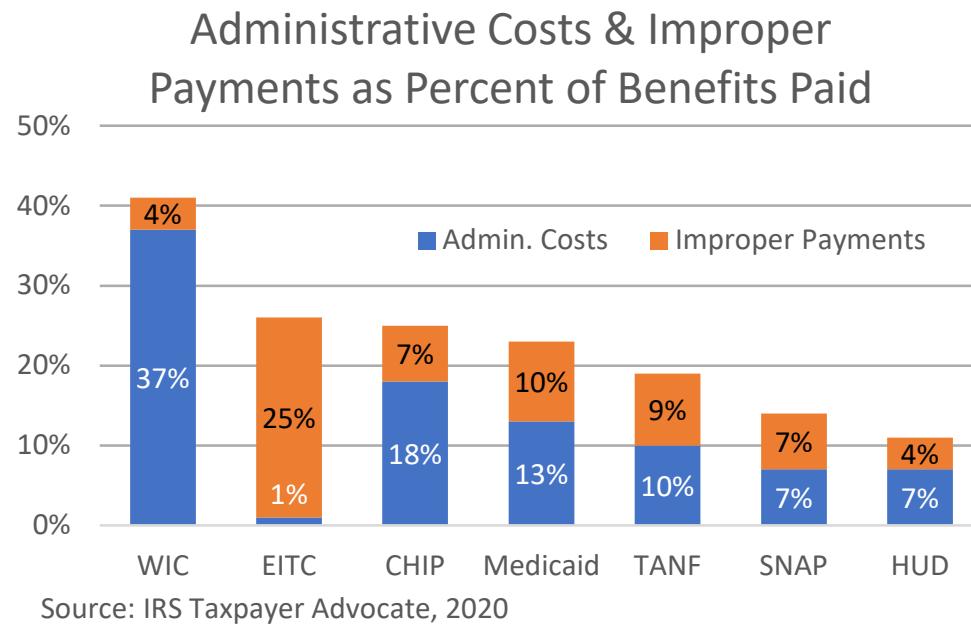
Increasing EITC Participation – No Change Found

Description	Outcome
<u>Employee Awareness Notices</u> Examination of states requiring employers to provide EITC information to employees	<ul style="list-style-type: none">• No evidence that EITC notification laws increase EITC participation
<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">• None of six trials found increase in EITC take-up• Engagement found to be greater when communication comes from tax agency and is more personalized and formal

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.

