

Earned Income

ORS 315.266	Year Enacted:	1997	Transferable:	No
	Length:	1-year	Means Tested:	Yes
	Refundable:	Yes	Carryforward:	No
	Kind of cap:	None	Inflation Adjusted:	Yes
TER 1.405				

Description

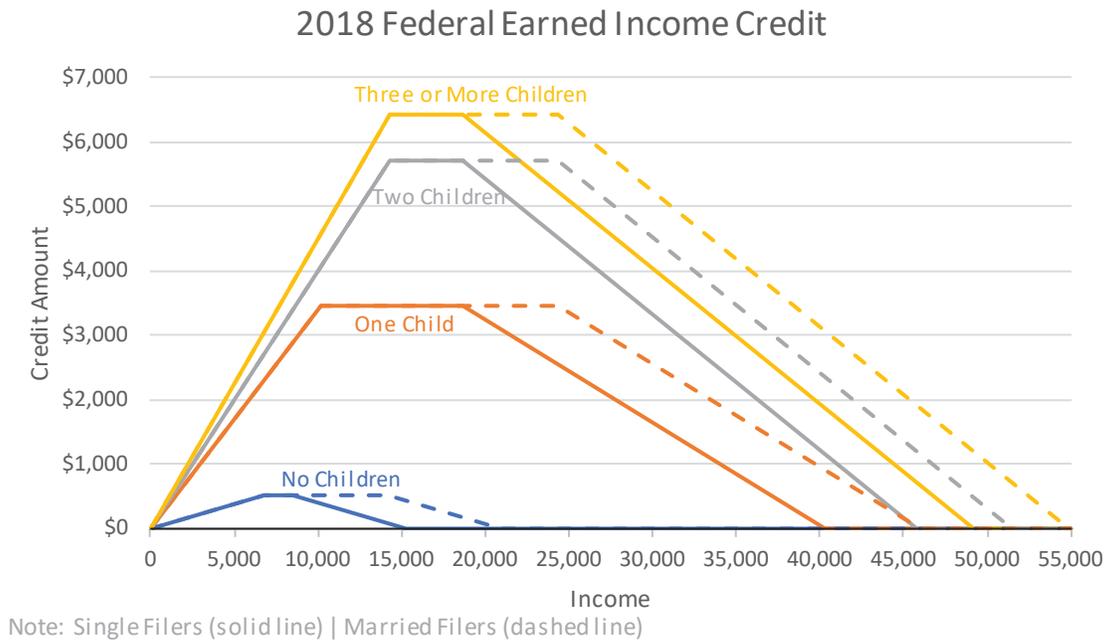
Taxpayers allowed to claim the federal earned income tax credit (EITC) are allowed an Oregon earned income tax credit (OEITC) equal to either 8% or 11% of the federal credit amount allowed for the corresponding tax year. To claim the 11% credit, an Oregon taxpayer must have a dependent under the age of three at the close of the tax year. The OEITC 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 allowed 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 the federal EITC.

Federal Credit Description

The EITC is a refundable tax credit available to eligible individuals of comparatively low earnings. As the credit is refundable, the credit first reduces an individual's tax liability, potentially to zero. If additional credit amount is available after reducing tax liability to zero, the remaining credit amount is paid directly to the individual (or individuals in cases of joint tax return filers) as a tax refund.

The EITC amount is calculated on formulas that consider earned income, number of qualifying children, marital status and adjusted gross income (AGI). Initially, the EITC 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. The following chart visually provides the detailed components of the EITC formula and amount of the credit.



To qualify for the EITC a tax filer must fulfill the following requirements:

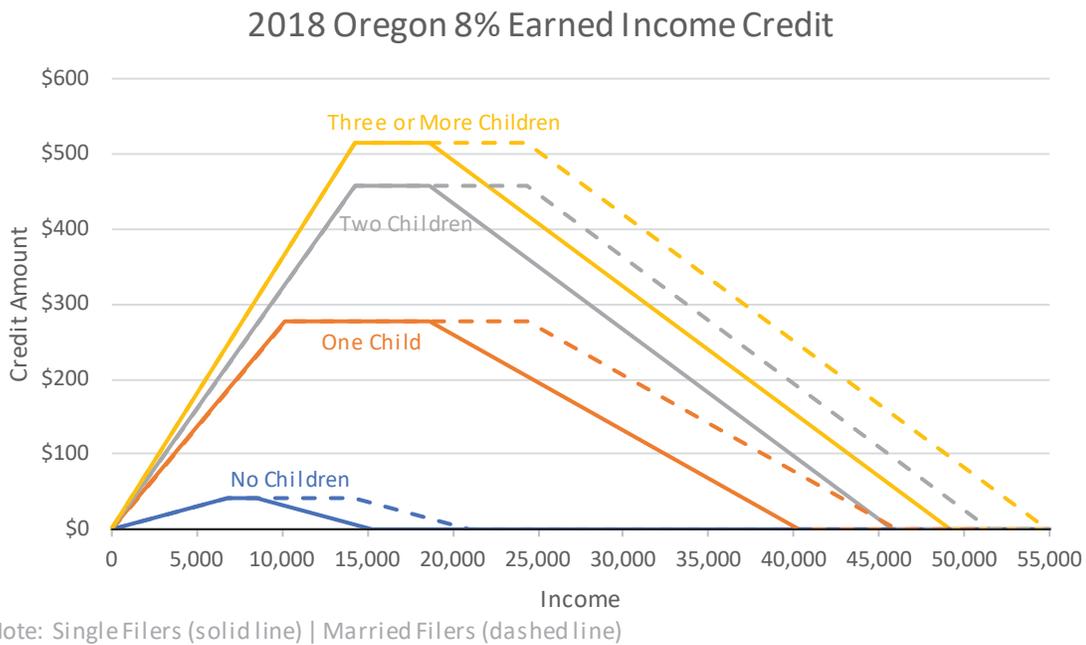
- 1) File a federal income tax return
- 2) Have earned income
- 3) Meet certain residency requirements
- 4) Tax filer’s children must meet relationship, residency and age requirements (to be considered qualifying children for the credit)
- 5) Childless workers claiming credit must be aged 25-64
- 6) Investment income must be below specified amount (indexed to inflation, \$3,500 in 2018)
- 7) Filer not disallowed from credit due to prior fraud or reckless disregard of EITC rules in previous year EITC claims
- 8) Must provide Social Security numbers. (Crandall-Hollick & Falk, 2018)

To be considered a qualifying child, the child of the EITC recipient must meet the following three requirements:

- 1) Child must have a specific relationship to the tax filer (including: son, daughter, step child or foster child, brother, sister, or descendent of such a relative)
- 2) Child must share a residence with the taxpayer for more than half the year in the U.S.
- 3) Child must be under the age of 19 (24 if a full-time student) or be permanently and totally disabled. (Crandall-Hollick & Falk, 2018)

These requirements can result in a child being a qualifying child of more than one tax filer (e.g. parents living separately). Tie-breaking rules exist in instances where a child is a qualifying child for more than one tax filer.

The following chart displays Oregon’s 8% credit.



Policy

Oregon’s earned income tax credit was enacted in 1997 by SB 388 and was originally enacted as 5% of the federal earned income tax credit and was not refundable nor could unused credit amounts be carried forward to succeeding tax years. In addition to the Oregon’s EITC, SB 388 created Oregon’s working family child care credit.³³ Policy purpose discussions that took place during the 1997 enactment of the two credits by SB 388 were often discussed as a combined policy proposal.

Discussions regarding the purpose of the EITC often focus on the purpose of the federal earned income tax credit.³⁴ This report by contrast focuses on the policy purpose of the Oregon credit. A review of the discussion and testimony during 1997 enactment of Oregon’s EITC indicates the **policy purpose of the credit is 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 earn more if already part of the labor force** (Discussions of Senate and House Revenue Committees, 1997). Presentation by committee staff depicted the OEITC’s impact on low income households with children by providing examples of change in a household’s spendable income³⁵ under different Oregon EITC percentage scenarios. The Committees also received testimony regarding the potential for low-income households without federal tax liability having Oregon tax liability and how Oregon’s treatment of such

³³ HB 2171 (2015) combined Oregon’s Working Family Child Care credit with Oregon’s Child and Dependent Care credit. The combined credit is known as the Working Family Household and Dependent Care Credit.

³⁴ When enacted in the 1970’s, two primary purposes existed for the federal EITC: 1) encourage nonworking poor with children to enter the workforce, and 2) help reduce the tax burdens of working poor families with children. In the 1990’s the purpose of the federal credit expanded to include poverty reduction for working families with emphasis on encouraging unmarried mothers to work. (Crandall-Hollick & Hughes, 2018)

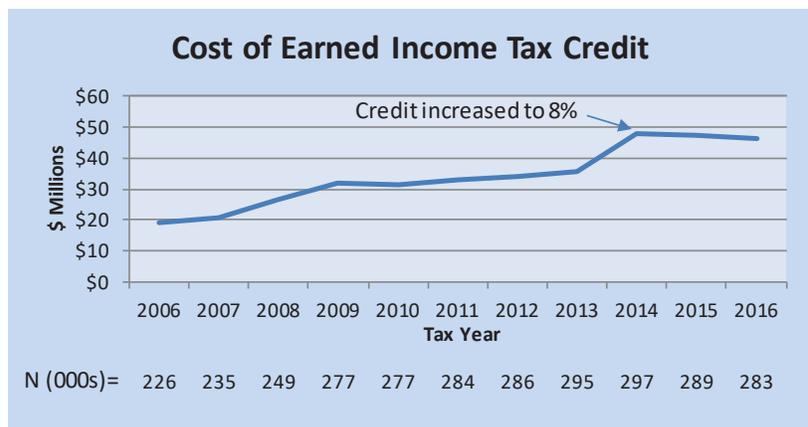
³⁵ “Spendable income” in this context refers to household income from employment and non-employment sources such as government assistance programs (e.g. federal EITC, food stamps etc.) with FICA taxes netted out.

households contrasted with other states. While higher OEITC percentages and refundability were considered in 1997 as policy options, potential impacts on General Fund revenues ultimately led to a non-refundable credit equal to 5% of the federal EITC.

Subsequent Legislatures expanded Oregon’s EITC and made the credit refundable. Oregon’s current EITC is 8% of the federal EITC and 11% for taxpayers with a dependent under the age of three at the close of the tax year. This expansion of the credit further grew spendable income for qualifying households through a combination of an increased reduction in tax liability or as a direct payment to households benefiting from the refundability of the credit.

Beneficiaries

Beneficiaries of Oregon’s earned income tax credit are determined by Oregon’s credit percentage and federal credit design. For most qualifying filers, Oregon’s EITC is equal to 8% of the federal EITC, whereas filers with at least one dependent under the age of three receive 11% of federal EITC. The 11% percentage more heavily weights credit benefits towards families with young children. As displayed in the previous charts, by design, amount of credit initially increases as income increases, plateaus as income continues to increase and subsequently declines as income continues to increase. Credit benefit increases with the number of qualifying children a filer can claim (up to three) with little benefit available to filers with no children.



On average, the total value of Oregon’s earned income tax credit for the past three tax years has been about \$47 million with the average number of beneficiaries at about 290,000. The number of full-year tax filers, revenue impact and average credit amount is presented in the following table. As displayed, about 80% of the total ETIC benefit goes to filers with income less than \$30,000. Average EITC benefit is greatest for filers with income between \$14,400 and \$29,800 where average benefit is \$290 compared to an overall average of \$170.

Oregon Earned Income Tax Credit 2016 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
< \$14,400	110,400	\$100	\$11.3	26%
\$14,400 - \$29,800	82,120	\$290	\$23.7	55%
\$29,800 - \$52,400	60,170	\$140	\$8.3	19%
\$52,400 - \$92,700	430	\$10	<\$0.1	<1%
> \$92,700	0	\$0	\$0.0	0%
Total Full-Year Filers	253,120	\$170	\$43.3	100%

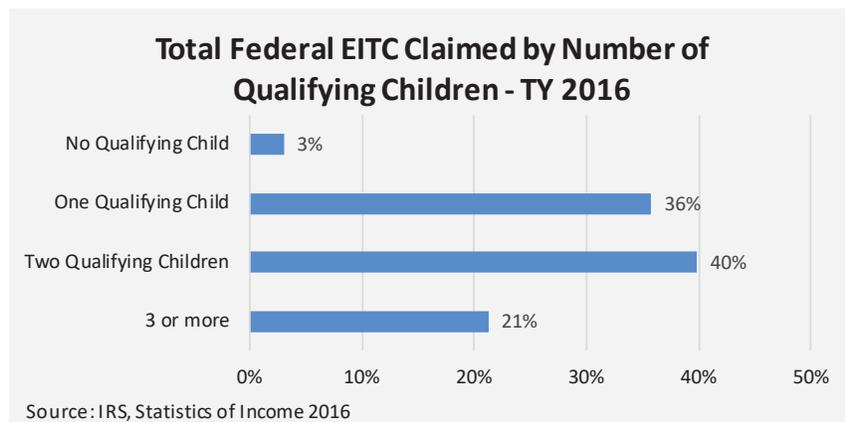
(State of Oregon Tax Expenditure Report: 2019-21 Biennium)

The following two charts display OEITC claimed amounts by adjusted gross income (AGI) and age of primary filer on the tax return. Credit amount claimed by AGI category displays a fairly normal distribution of credit claimed with about 70% of the EITC benefit going to tax filers with AGIs between \$10K-30K. As EITC benefit is greater for households with more qualifying children, it is perhaps unsurprising that EITC benefits are most concentrated in age groups where children are more likely to be present in a household.³⁶

Credit Amt. Claimed by AGI Category TY 2016 Full Year Filers		
AGI (000's)	Claimed	Pct. of Total
<0	152,500	0%
0-5	939,500	2%
5-10	4,042,300	9%
10-15	7,253,000	17%
15-20	8,614,800	20%
20-25	8,061,200	19%
25-30	6,147,400	14%
30-35	4,203,900	10%
35-40	2,344,600	5%
40-45	1,108,500	3%
45-50	381,700	1%
50-60	44,500	0%
60-70	0	0%
70-80	0	0%
80-90	0	0%
90-100	0	0%
100-250	0	0%
250-500	0	0%
500+	0	0%
Total	43,293,900	100%

Credit Amt. Claimed by Age Category TY 2016 Full Year Filers		
Age	Claimed	Pct. of Total
0 - 14	0	0%
15 - 19	341,200	1%
20 - 24	3,799,400	9%
25 - 29	7,724,800	18%
30 - 34	8,355,700	19%
35 - 39	7,677,900	18%
40 - 44	5,456,200	13%
45 - 49	4,133,500	10%
50 - 54	2,686,300	6%
55 - 59	1,669,600	4%
60 - 64	912,600	2%
65 - 69	325,100	1%
70 - 74	127,100	0%
75 - 79	49,900	0%
80 - 84	14,600	0%
85+	5,400	0%
Unknown	14,800	0%
Total	43,293,900	100%

The chart to the right displays the proportion of the federal EITC benefit claimed by number of qualifying children claimed on the tax return. As displayed, only 3% of total EITC claimed was claimed by tax filers with no qualifying children which is unsurprising as the policy purpose of the federal credit is directed towards low-income tax filers with children.



³⁶ Note that the chart depicts OEITC benefits for TY 2016 which is the most recent year for which data is available. Oregon's EITC increase to 11% for tax filers with a dependent under the age of 3 became effective beginning with the 2017 tax year so is not depicted in the tables.

Similar Incentives Available in Oregon

The Working Family Household and Dependent Care (WFHDC) tax credit was created in 2015 through the merging of two former credits, the Working Family Child Care and Dependent Care tax credits. The WFHDC is a refundable personal income tax credit available to taxpayers with employment related expenses for care of qualifying individual(s) that allow the taxpayer to work, look for work or attend school. Examples of qualified individuals include: dependents under the age of thirteen, disabled dependents, disabled taxpayer or spouse.

The WFHDC amount is a percentage of the qualified employment related expenses limited to no more than \$12,000 (single) and \$24,000 (joint). The credit percentage initially increases as taxpayer adjusted gross income (AGI) as a percentage of federal poverty level (FPL) increases. The maximum potential credit percentage is 75% and is available to taxpayers with AGI as a percentage of FPL between 90% - 110%. As AGI as a percentage of FPL increases above 110%, the credit percentage decreases, eventually to zero at AGI greater than 300% of FPL. In tax year 2016, the total amount of credit received was \$36.1 million, most of the benefit went to taxpayers with AGI less than \$50,000 and the average credit amount for full year Oregon filers was \$1,090 (State of Oregon Tax Expenditure Report: 2019-21 Biennium).

The Legislative Fiscal Office identified several direct spending programs that shared some level of policy relationship to the credit in terms of providing funding to income assistance programs for working adults and families in Oregon. The spending programs along with each program’s 2017-19 legislatively adopted budget amount is detailed in the table below.

Other Tax Credits	2017-19 Legislatively Approved Budget (\$M)			
	General Fund			
Working Family Household and Dependent Care	\$72			
Direct Spending Program	General Fund	Other Funds	Federal Funds	Lottery Funds
Oregon Health Plan (Medicaid)	\$1,025	\$2,516	\$10,506	
Non-Medicaid Behavioral Health Services	\$262	\$143	\$64	\$9
Employment Related Day Care (ERDC)	\$63	\$97		
Emergency Housing Assistance (EHA)	\$28	\$12		
Individual Development Account (IDA)		\$0.4		
Wage and Hour Division	\$3	\$7		
Workforce Operations/Employment Services - STEP and ABAWD		\$6		
Workforce Operations/Employment Services - Contracted Employment Services				\$0.8

Oregon Health Plan (Medicaid)

The Oregon Health Plan provides health care services for low-income Oregonians. About 1 million Oregonians receive their health care through this program. In general, adults must be at an income level of 138% of the federal poverty level or below. Children’s programs cover children at income levels up to 300% of the federal poverty level. Services include physician, pharmaceutical, hospital, behavioral health, vision, dental, and other services. The state receives federal matching revenues for state

expenditures. The match rate varies depending on the population served, but the overall average for the 2017-19 biennium is 75% federal funding.

OHA reports that nearly 40% of adults on the Oregon Health Plan have some type of employment. Roughly 26% work at least half-time.

Non-Medicaid Behavioral Health Services

The non-Medicaid budget provides prevention and treatment services for behavioral health care for Oregonians, including drug and alcohol addiction, problem gambling, and mental illness. In general people served must be at or below 200% of the federal poverty level. This includes people who are not eligible for the Oregon Health Plan, are under-insured, or are on the Oregon Health Plan but need services that are not eligible through Medicaid.

Although there is no data available, presumably some proportion of these people work, similar to the Oregon Health Plan.

Employment Related Day Care (ERDC)

The Employment Related Day Care program provides a subsidy to help low-income working, part-time working/student, and self-employed families purchase quality child care. To be eligible, a family's income must be less than 185 percent of the 2018 Federal Poverty Level; for a family of three this is less than \$3,204 in gross monthly income. Families choose a DHS-approved child care provider and ERDC pays the subsidy portion directly to the provider on behalf of the family. Families also pay a portion of the cost of child care, called a copayment. Copayments are income-based on a sliding scale and remain stable during the 12-month certification period. Families may pay additional costs when a provider charges more than the maximum hourly or monthly rate that the program is authorized to pay.

The Other Funds come from federal Child Care and Development Fund dollars that are passed to the Department from the Oregon Department of Education. In June 2018, ERDC helped 8,083 families (15,325 children) pay child care costs.

Emergency Housing Assistance (EHA)

The program provides funds to local Community Action Agencies for homelessness prevention and assistance services, which can include low income rental assistance payments, transitional housing, in-home services and other cash assistance that may help prevent homelessness or rapidly rehouse a low-income individual or family. To qualify for the program, those requesting assistance must have a total household income no greater than 80% of the area's median income. Data collected by the Housing and Community Services Department that 27% of adults receiving EHA assistance in FY 2018 had some form of earned income.

Individual Development Account

The budgeted amount represents HCSD contract management and oversight costs attributable to agreements with Individual Development Account administrators. Individual Development Accounts are matched savings accounts for low income Oregonians who are saving toward goals including business startup, education, and home purchase. Matching funds come from a state tax credit offered to those who contribute to the initiative.

Wage and Hour Division

The Wage and Hour Division is responsible for the enforcement of minimum wage, overtime, prevailing wage, sick leave and work schedule laws, helping to ensure that Oregon workers are paid what they are owed under Oregon Law. Investigation of claims, collection of wages owed, and enforcement of these laws ensure that Oregonians have more income to meet their needs.

Workforce Operations/Employment Services - STEP and ABAWD

The Employment Department provides enhanced employment services to recipients of the federal Supplemental Nutritional Assistance Program, and intensive case management services to a targeted subset of those recipients, able bodied adults without dependents, via an interagency contract with and transfer of funds from the Department of Human Services.

Workforce Operations/Employment Services - Contracted Employment Services

This program provides job placement assistance for other Department of Human Services clients via an interagency contract with and transfer of funds from the Department of Human Services.

Credit Effectiveness and Efficiency

In the context of the purpose of Oregon’s EITC being, 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 earn more if already part of the labor force, the existence of Oregon’s EITC fulfills the credit’s underlying purpose of increasing spendable income for low-income working families. The following examples are provided to illustrate the effectiveness of Oregon’s credit. The examples are overly simplistic in that they ignore many additional factors that may specifically influence a low-income family’s spendable income (e.g. - OR child & dependent care tax credits, TANF benefits, SNAP benefits, housing vouchers). Having said that, the simplicity of the examples provides a

straightforward way of illustrating the benefit of Oregon’s EITC.

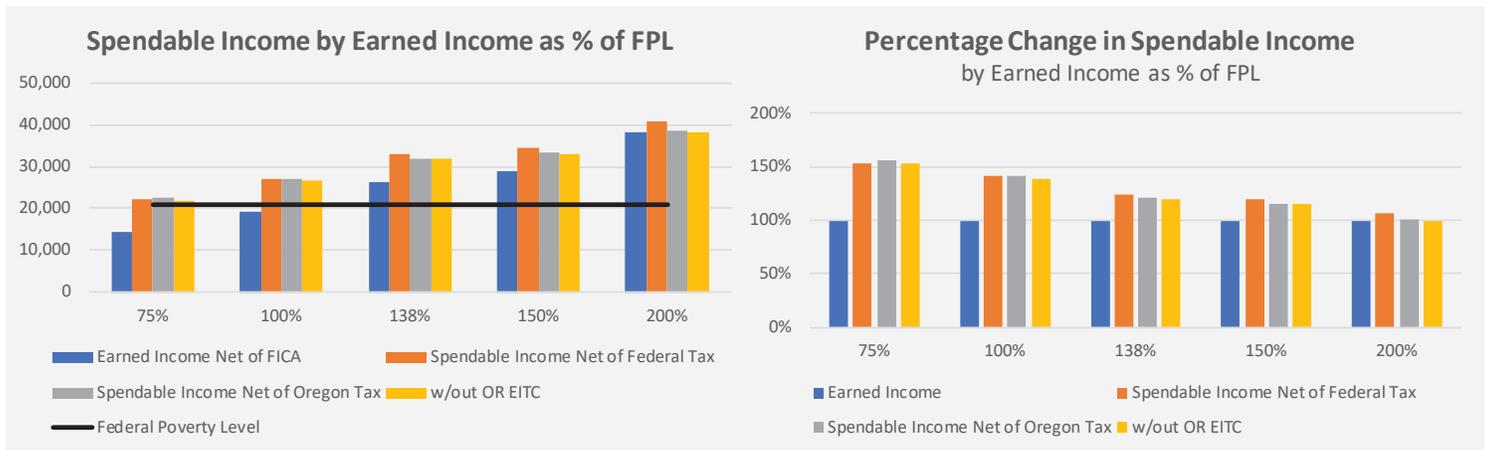
The table to the right illustrates the tax computations related to a family consisting of one adult and two children (most common recipient of EITC) presented by family’s income in relation to percentage of federal poverty level (FPL). In the table,

Spendable Income = *earned income – FICA Taxes – Net federal inc. tax – Net OR inc. tax*. As displayed, the federal EITC and child tax credit have the greatest effect in increasing spendable income. In the example, increase in spendable income from Oregon’s EITC ranges from 2.1% for a family with earned

Tax Year 2018 - Poverty Guideline for 1 Adult + 2 Children Household					
	-----Poverty Guideline-----				
	75%	100%	138%	150%	200%
Earned Income	15,585	20,780	28,676	31,170	41,560
FICA Taxes	1,192	1,590	2,194	2,385	3,179
Federal Income Tax					
Tax Before Credits	0	278	1,068	1,317	2,555
Child Tax Credit	-1,963	-3,020	-3,867	-4,000	-4,000
Federal EITC	-5,716	-5,271	-3,607	-3,080	-890
Net Federal Income Tax	-7,679	-8,013	-6,406	-5,763	-2,335
Oregon Income Tax					
Tax Before Credits	703	1,067	1,774	1,998	2,933
Personal Exemption Credit	-603	-603	-603	-603	-603
OR EITC	-457	-422	-289	-246	-71
Net Or Income Tax	-357	42	882	1,149	2,259
Spendable Income					
With OR EITC (current law)	22,429	27,161	32,007	33,400	38,457
Without OR EITC	21,971	26,740	31,718	33,153	38,385
OR EITC % Increase in Spendable Income	2.1%	1.6%	0.9%	0.7%	0.2%

Note: Example uses OR EITC percentage of 8% of federal

income at 75% of FPL to .2% for a family with earned income at 200% of FPL. The charts below visually provide the same information contained in the previous table and represent tax year 2018. The chart to the lower left presents the change in household spendable income due to federal tax policy (FICA taxes and refundable child and earned income tax credit) and Oregon tax policy both with and without Oregon's EITC. The chart to the lower right displays the change in federal and Oregon tax policy as percentage of earned income prior to federal and Oregon tax policy. As displayed in the second chart, the greater percentage benefits from federal and Oregon tax policy are experienced at lower relative income amounts.



Summary of Federal Earned Income Effectiveness

As previously mentioned, this report focuses on Oregon's earned income tax credit. As Oregon's EITC is a percentage of federal, the briefest of overviews of the federal credit's effectiveness is included. The federal EITC has been the subject of much study since original enactment in the 1970's. The upshot of this analysis is:

- EITC is the largest refundable tax credit targeted to the poor and is considered the most effective government tax and transfer program in reducing poverty of working families with children
- Federal EITC has had a positive effect on labor force participation of single mothers
- Literature is mixed on the EITC's effect on workforce participation of married workers with some studies suggesting the EITC has, to a small degree, decreased workforce participation of married workers. Other research suggests this effect is negligible.
- EITC does tend to result in a slight reduction of hours worked among married workers
- The EITC has had a substantial effect in reducing new entries into the cash welfare system
- EITC has had little effect on the number of hours recipients work. Where adjustment in hours does take place, it is more likely to be an increase in hours.
- For workers that have greater flexibility in adjusting hours worked and income received such as self-employed individuals, evidence suggest some such workers do adjust income to maximize the EITC. This adjusting can increase over time suggesting that as credit recipients learn more about credit structure, greater adjustment to income takes place.

(Crandall-Hollick & Hughes, 2018)

Analysis of Potential Direct Appropriation

The chief administrative benefit of the Oregon EITC is the simplicity of the credit for both the administrating agency (Oregon Department of Revenue) and for the tax filer. Oregon's EITC simply functions as a percentage of the federal credit. For a taxpayer to determine their Oregon EITC they either multiply their federal credit amount by 8% or 11% for filers with dependent under the age of three.

The drawbacks of the Oregon's EITC functioning as a percentage of the federal EITC include the potential loss in ability to determine policy (other than how Oregon's EITC connects to the federal EITC) and the timing of the EITC payments to individuals. As the credit is received after a tax return is filed, this results in funds being dispersed at a single point in time, usually late winter or early spring.

A direct spending program could provide Oregon with more policy options in terms of structural design and could also be designed to provide more monetary support for qualifying individuals throughout the year. However, counter to how the EITC functions, a direct spending program generally requires qualification criteria to be met through an application process prior to benefits being dispersed. The EITC by contrast determines eligibility through the tax return process with benefits being dispersed shortly following return filing. As noted by IRS Taxpayer Advocate, Nina Olson, in congressional testimony:

Using tax returns as the "application" for EITC benefits rather than a traditional screening process results in low cost with high participation as well as the risk of improper payment. The IRS has pointed out that for the EITC: Current administration costs are less than 1% of benefits delivered. This is quite different from other non-tax benefits programs in which administrative costs related to determining eligibility can range as high as 20% of program expenditures. (Olson, 2011)

Administrative & Compliance Costs

The administrative and compliance costs of this credit are minimal.

Similar Credits Allowed in Other States

Twenty-nine states and the District of Columbia have earned income tax credits. Of the twenty-nine, all states except Minnesota base their credit on the federal earned income tax credit. The percentage of the federal credit varies by state (Low, Montana: 3% | High, South Carolina: 125%³⁷) along with other potential limiting factors such as credit refundability (National Conference of State Legislatures, 2018).

Only one of the four states neighboring Oregon has a funded state earned income tax credit.³⁸ California provides a credit equal to 85% of the federal credit but only up to half of the federal phase-in range. For tax year 2018, the maximum income to still receive the state credit for a family with one or more children was \$24,950 with a state credit maximum of between \$1,554 - \$2,879 (CA Franchise Tax Board, 2018).

³⁷ South Carolina's 125% is being phased in over six years and will reach 125% beginning in tax year 2023.

³⁸ While Washington enacted in 2008 a version of the EITC known as the Working Families Tax Rebate, the credit has not been funded by the Legislature (Washington does not have a personal income tax).

Appendix A: Legislative History

This appendix contains the legislative history for each tax credit included in this report. Statutory changes can be technical in nature or policy-oriented. Text in bold indicates changes that are more policy-oriented.

Statute	Tax Expenditure (TE) Name and TE Number (Number aligns with Governor's Tax Expenditure Report)			
315.237	1.401 Employer Provided Scholarships			
	Year	Bill	Chapter	Section(s)
				Policy
	2001	HB 2521	475	1-9 Enacting legislation
	2009	HB 2067	913	24 Established sunset of 1/1/2014
	2011	SB 242	637	102 Definitional change aligning to other related statutory changes (Oregon Student Assistance Commission replaced by Oregon Student Access Commission)
	2013	HB 3367	750	17 Sunset extended from 2014 to 2020
315.266	1.405 Earned Income			
	Year	Bill	Chapter	Section(s)
				Policy
	1997	SB 388	692	3 Enacting legislation Credit amount equal to 5% of federal earned income tax credit (EITC) Credit not refundable and no carryforward allowed
	2001	HB 2777	114	33 Statutory grammar correction
	2001	HB 2272	660	56 Specified Internal Revenue Code (IRC) date connection as IRC in effect on June 8, 2001
	2003	HB 2186	77	12 Removed IRC date connection language (IRC connection became part of ORS 314.011)
	2005	SB 31	832	54, 57, 59 Made Oregon EITC refundable beginning 1/1/2006 Increased credit amount to 6% of federal EITC beginning 1/1/2008 Sunset refundability for OR EITC as of 1/1/2011
	2007	HB 2810	880	2 Extended refundability through tax year 2013 Full sunset of credit set to 1/1/2014
	2013	3367	750	1 Sunset extended to 1/1/2020
	2013 S.S.	HB 3601	5	6d Increased OR EITC to 8% of federal EITC effective beginning with tax year 2014
	2016	HB 4110	98	1 Increased OR EITC to 11% of federal EITC for taxpayers with a dependent under the age of 3 at end of tax year (beginning TY 2017)
315.622	1.408 Volunteer Rural Emergency Medical Services Providers			
	Year	Bill	Chapter	Section(s)
				Policy
	2005	SB 31	832	63,66 Enacting legislation Credit equal to \$250 made available to certified emergency medical technicians (EMTs) that provide volunteer EMT services in rural areas when at least 20% of the EMT's total technician services provided in that year are provided in rural areas
	2009	HB 2067	913	26 Extended sunset to 1/1/2014
	2011	SB 234	703	31 Modified statutory terminology
	2013	3367	750	16 Sunset extended to 1/1/2020