

EITC Background

The federal earned income credit (EIC) was enacted in 1975 with the policy goal of refunding payroll taxes to certain low-income taxpayers.

The Oregon EIC follows the same pattern as the federal credit, and piggybacks on the federal EIC; the amount of the state and federal credit varies with income and the number of children. Nearly two-thirds of families who receive Oregon's EIC earn less than \$20,000 per year. This morning I'd like to talk about the Oregonians who are NOT receiving the credit they've earned.

EITC Participation

The number of eligible people claiming the EITC is called the participation rate, or utilization. Not everyone who is eligible to receive the EITC is claiming and receiving it. Two predominant reasons are these: failure to claim it on the tax return, and simply not filing a tax return. Some people mistakenly assume that since they don't earn enough money to pay taxes, there's no harm in not filing a return. They just don't realize they could get some of their pre-paid taxes BACK. Or they're unsure how to file, and discouraged that getting help will cost money.

As a member of Ways and Means, I've been keenly interested in making sure we maximize federal dollars coming into the state. The reasons are obvious: more direct assistance for Oregonians, reduce the burden Oregon carries on its own, and benefit from the dollars circulating as the money is used to buy goods and services in Oregon. Consider how hard we work on the demand for funding food banks, emergency and low-cost housing, and health care; some of the people needing those services are likely eligible to receive the EITC.

So what's the participation rate, and can we influence it? Utilization of EITC varies among different types of tax filers: single or married, number of children, and other characteristics.ⁱ The federal Government Account Office (GAO) estimated that the participation rate is 45 percent for filers without children; 96 percent for filers with one child; 93 percent for filers with two children; and surprisingly less, 63 percent for filers with three or more children.

Our Legislative Revenue Office advises that while precise reasons for not claiming the credit are not known with certainty, there is some evidence to suggest that most of the eligible non-claimants do not file tax returns.

Some research has also indicated that a large share of EIC recipients use a tax preparer to file their return. The costs associated with using a preparer may also provide some disincentive.ⁱⁱ

Expanding Participation

Oregonians for Working Families tells us, "By helping publicize the EITC ... you can help your constituents access tax credits they deserve. No eligible Oregonian should miss out on the EITC or other tax credits."

Children First for Oregon says, "All of the state and federal tax credits available to families and businesses are underutilized. An estimated 25% of families eligible for the EITC do not file and receive their benefits. Oregon should increase its outreach efforts and expand the availability of free tax preparation for low-income families."

And we hear from Oregon's Hunger Relief Task Force, "Increasing the state EITC percentage will help low-wage workers and our state. Low-income families often live paycheck to paycheck. Tax

relief will be spent on food, housing, healthcare, and utilities. This helps families to be self-sufficient and supports local business.”

The federal EIC is important for about one out of seven taxpaying families. Studies show that these families primarily spend their EIC refunds on bills, rent, utilities, groceries, and other commodities. Much of the EIC is recycled through Oregon communities, substantially enhancing the local economy.ⁱⁱⁱ

For the 2006 tax year, the federal EIC return to Oregon was \$362.5 million.^{iv} For that tax year, 206,626 families claimed the EITC, but only 72% of those eligible. If we achieved a 10% increase in usage, there is the potential for 20,500 additional claimants bringing in an additional \$35.9 million federal dollars.

Closing

So given all that, my bill provides clear direction to state agencies to work together, collaborate, to increase the number of Oregonians claiming the EITC. We have several state agencies that do, or can provide information about it, and a number of private organizations that do. What we don't have is a concerted, coordinated approach to ensure that we develop a good and comprehensive outreach plan. We should eliminate duplication of effort as each agency and organization writes and re-writes the materials one at a time, and schedules information campaigns. We should be able to achieve economies of scale for printing or publicizing information. We should be sure taxpayers hear about free tax preparation assistance that's available to them.

Oregon's Hunger Relief Task Force tell us “Oregon's tax system is hardest on low-wage workers. The answer is the Earned Income Tax Credit.” Let's help them, and the Interagency Council on Hunger and Homelessness, get the attention deserved to meet this challenge.

ⁱ Some research has identified certain characteristics that are associated with these non-filers. Examples of these characteristics include eligibility for a relatively smaller credit, either no children or a larger family, lower household income, younger parents, lesser educated, and little prior tax filing experience. (Allanach)

ⁱⁱ Chris Allanach, LRO

ⁱⁱⁱ OCPP April 2, 2007 Executive Summary

^{iv} [13.4% of full-year filers claimed the credit.]