



No tax on Tips or Overtime vs Other policy options

The Overtime tax break alone could grab the revenue needed for EITC and the Kids Credit. We currently spend about \$93 million a year on the Kids Credit and EITC combined, both targeted to income and family size. If we follow federal law and stop taxing overtime and tips, it will cost about \$130 million a year.*

Three Options:

#1. Disconnect from these federal provisions retaining logic and fairness in Oregon's tax code. Continue spending the money as currently budgeted rather than make budget cuts.

#2. Mirror the federal provisions but with much lower income caps, not the Under whopping \$550,000 for joint filers in HR 1. Instead a tipped or overtime taxpayer's tax benefits could be limited to an average Oregon teacher's salary**: phasing out the benefit from \$50,000 to \$80,000 for single filers and \$80,000 to \$110,000 for joint filers and limiting the eligible tipped amount to \$12,500.

#3 Continue to tax tip and overtime income just like all other income by disconnecting from that portion of HR 1 and use the \$130 million a year retained to augment Oregon's Kids Credit and/or EITC. As the Federal law exempting OT and Tips from income tax is set to expire at the end of 2028, the amount added to one of these state subsidies would be based on LRO's annual estimate of the revenue raised by continuing to tax these sources of income.

* The tips and overtime numbers come from the [LRO report dated Oct. 14, 2025](#) and the EITC and Kids Credit from the 2025-27 [Tax Expenditure Report](#).

** Per NEA in 2025 the average beginning teachers' pay in Oregon is \$44,446 while the average of all K-12 teachers' pay is \$77,130

<https://www.nea.org/resource-library/educator-pay-and-student-spending-how-does-your-state-rank>

We read the bills and follow the money

Background information on these programs and HR 1

Oregon Kids Credit

The Oregon Kids Credit is a refundable credit for people with young dependent children. For 2024, **if your adjusted gross income (AGI) after Oregon additions and subtractions (your modified AGI) is \$25,750 or less, the full credit is \$1,000 per child for up to five dependent children ages 0 to 5 at the end of the tax year.** Above a modified AGI of \$25,750 the credit is **reduced and is \$0 at a modified AGI or \$30,750.**

The Oregon Kids Credit is refundable, so the portion of the credit that is more than what is owed can be refunded. Even people who don't have taxable income or owe any tax may be able to claim certain refundable credits. Free filing assistance resources can be found on the [Free Tax Help page](#).

Earned Income Tax Credit - EITC

The Earned Income Tax Credit is a federal and state tax credit for people making up to \$66,819 a year and the two can give families up to \$7,830 back when they file taxes.

The state credit is a percentage of the federal credit:

- If you have a qualifying dependent who was younger than 3 at the end of 2025, your state credit is 12% of your federal EITC.
- For all older children the state credit is 9% of your federal EITC with a maximum refundable credit of \$940 on their state return.

To claim the Oregon EITC, you must first file taxes and qualify for the federal EITC. [Note these 2024 figures.](#)

Children or Relatives Claimed	Maximum AGI* (filing as Single, Head of Household, Widowed or Married Filing Separately)	Maximum AGI* (filing as Married Filing Jointly)	Maximum Federal Credit	Maximum Oregon Credit <3yrs 12% >3yrs 9% of Federal
Zero	\$18,591	\$25,511	\$632	\$76/\$57
One	\$49,084	\$56,004	\$4,213	\$506/\$379
Two	\$55,768	\$62,688	\$6,960	\$835/\$626
Three	\$59,899	\$66,819	\$7,830	\$940/\$705

* Investment income must be \$11,600 or less for 2024.

Overtime not taxed

H.R. 1 creates a new deduction for “qualified overtime compensation” that an individual receives, if reported on an IRS required form.

The deduction is limited to \$12,500 per individual or \$25,000 for a joint return. It is phased out as modified adjusted gross income (MAGI) increases from \$150,000 to \$275,000 for individual returns or \$300,000 to \$550,000 for joint returns.

“Qualified overtime compensation” means overtime compensation paid to an individual required under the Fair Labor Standards Act (FLSA) that exceeds their regular wages (i.e., the “half” in “time-and-a-half”), excluding qualified tips. The deduction applies to tax years 2025 through 2028.

Tips not taxed

H.R. 1 creates a new deduction for “qualified tips” that an individual receives during any applicable year if reported on an IRS required form.

The tips deduction is limited to \$25,000 per tax return, regardless of filing status. It is phased out as modified adjusted gross income (MAGI) increases from \$150,000 to \$400,000 or \$300,000 to \$550,000 for joint returns.

“Qualified tips” are any cash (or credit card) tip received by an individual in an occupation that traditionally and customarily received tips on or before December 31, 2024. Qualified tips do not include any amount received by an individual unless they are: paid voluntarily, not subject to negotiation, and are determined by the payor. The deduction applies to tax years 2025 through 2028. A deduction of tips for the self-employed is allowed only to the extent their gross income exceeds their business deductions.

Sources:

- **OCPPI Tips and Overtime article:** <https://www.ocppi.org/2025/10/02/tax-breaks-tips-overtime/>
Includes data on who benefits by income distribution for these two items.
- **Overtime not taxed: ~\$96m/yr, LRO report Oct. 14, 2025**
- https://cdn.ymaws.com/www.oan.org/resource/resmgr/gr25/lro_disconnect_options__10.1.pdf
- **Tips not taxed: ~\$33m/yr, LRO report Oct. 14, 2025**
- **EITC: ~\$53m/year**, page 132 of the [Tax Expenditure Report](#), ORS 315.266
- **Kids Credit: ~\$40m/year**, page 140 of the Tax Expenditure Report, ORS 315.273