

DOLLARS THAT  
MAKE SENSE:  
THE EITC IN OHIO

A REPORT FROM  
POLICY MATTERS OHIO

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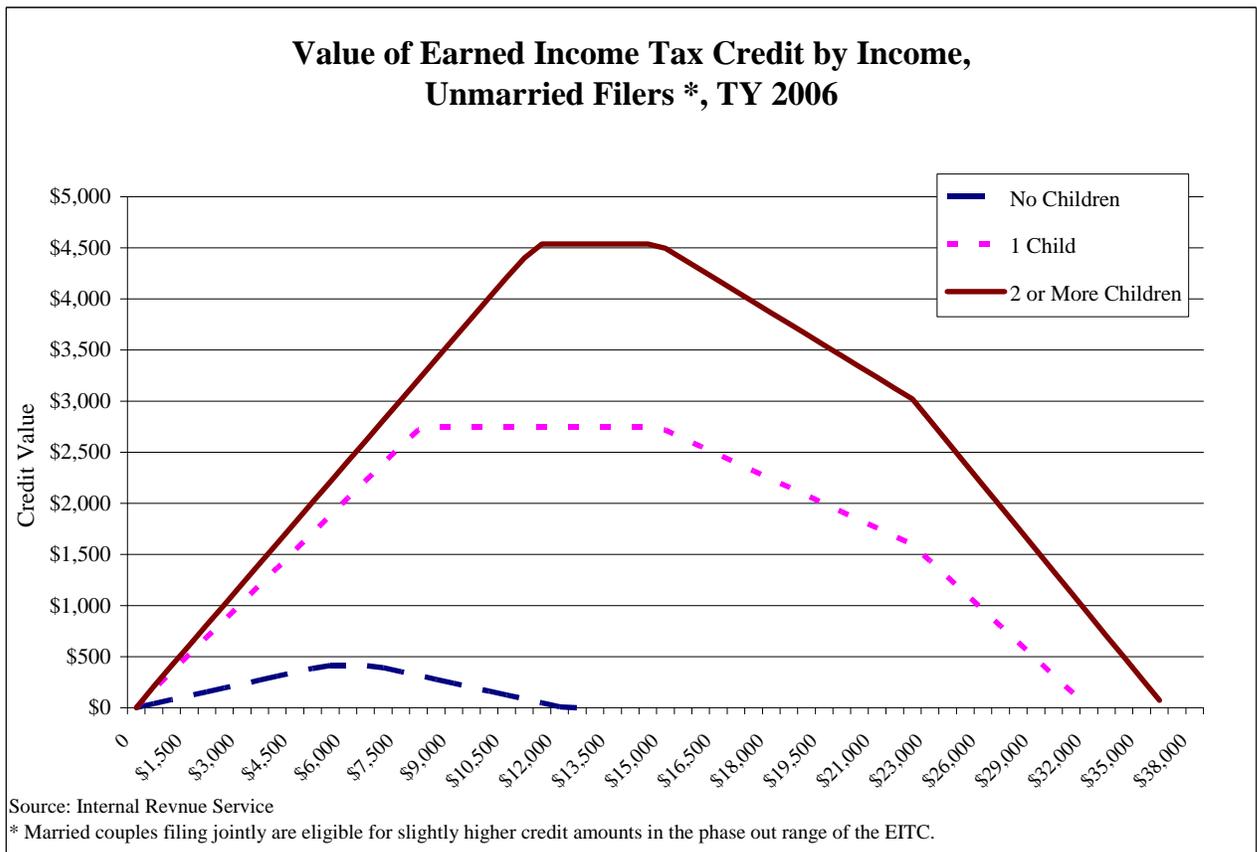
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**POLICY MATTERS OHIO**, the publisher of this study, is a nonprofit, nonpartisan research institute dedicated to researching an economy that works for Ohio. Policy Matters seeks to broaden debate about economic policy by doing research on issues that matter to working people and their families. With better information, we can achieve more just and efficient economic policy. Areas of inquiry for Policy Matters include work, wages, education, housing, energy, tax and budget policy, and economic development.

## THE FEDERAL EITC IN OHIO

The federal Earned Income Tax Credit (EITC) or Earned Income Credit (EIC) is a refundable tax credit available to some working individuals and families who earn less than \$38,000. This credit currently does more to bring working families out of poverty than any other government program. An estimated four million families were lifted above the poverty level because of the EITC program in 2004.<sup>1</sup> The EITC, which varies in value according to family size, marital status and income, can reach a maximum of \$4,536 in the 2006 tax year.



<sup>1</sup> Ami Nagle and Nicholas Johnson “A Hand Up: How State Earned Income Tax Credits Help Working Families Escape Poverty in 2006,” <http://www.cbpp.org/3-8-06sfp.htm>.

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The EITC, as shown above, has different levels for marital status, number of qualifying children, and income. The table below describes the phase out rates and maximum EITC credits for different family sizes and incomes.

<b>Federal EITC, Tax Year 2006</b>			
	<i>Number of Children</i>		
	0	1	2+
Families receive the maximum federal EITC when income reaches:	\$5,350	\$8,050	\$11,300
<b>Married</b>			
Families receive the maximum federal credit until income is over:	\$8,750	\$16,850	\$16,850
Maximum income to receive EITC:	\$14,120	\$34,000	\$38,348
<b>Unmarried</b>			
Families receive the maximum federal credit until income is over:	\$6,750	\$14,850	\$14,850
Maximum income to receive EITC:	\$12,120	\$32,000	\$36,348
<b>Maximum federal EITC</b>	<b>\$412</b>	<b>\$2,747</b>	<b>\$4,536</b>

In the 2005 tax season (the most recent data available), more than 800,000 Ohio families received the EITC at an average credit of \$1,784, which brought more than \$1.4 billion in federal refunds to Ohio.<sup>2</sup> More EITC dollars come to Ohio than to all but seven other states<sup>3</sup>, and Ohio accounts for approximately 3.5 percent of all the nation's credits.

<b>Ohio Tax Facts, Tax Year 2005 *</b>				
Total Ohio tax filers	Ohio EITC claims	EITC claims as percentage of filers	Total federal dollars refunded to EITC claimants in Ohio	Average EITC value
5,346,738	807,799	15%	\$1,441,447,098	\$1,784

Source: IRS SPEC database.

\* Estimate based on more than 98 percent of returns reported.

<sup>2</sup> All data comes from the IRS SPEC Return Information Data Base, Tax Year 2005 (October 2006) and the Brookings Institution, unless otherwise noted.

<sup>3</sup> Ohio ranks seventh among states in overall population.

## A STATE EITC IN OHIO

Ohio could enact a state EITC at a fairly modest cost to the state budget. Providing a state EITC, as 19 states<sup>4</sup> and the District of Columbia currently do, would be a very well-targeted way of providing modest additional resources to low-income working families, primarily those with children.<sup>5</sup> Such a policy would help some working families rise above the poverty level. States that have enacted state EITCs have credits ranging from five percent to 35 percent depending on earnings, children and other factors. Most states with an EITC have chosen to make those credits refundable, which allows families to receive the full amount of the credit even if the credit is larger than their income tax liability.<sup>6</sup>

All of the states with an EITC, with the exception of Minnesota, calculate their credit based on a percentage of the federal credit. For instance, if a state has a ten percent refundable state EITC and a family qualifies for a \$1,800 federal credit, the family would receive \$180 from the state. If the credit is refundable and if the family has any state income tax liability, the credit would cover the portion owed to the state and the rest would be refunded to the family. Three examples for low-income families are provided below. All three of these families would owe no federal taxes, with or without the EITC, but the EITC lowers their liability further, increasing the amount that the federal government provides to them. In two of the cases described, the filer would owe state taxes under current law, but with an EITC their tax liability is erased and they are owed a small refund from the state. In the case of the third family, the EITC lowers the size of their state tax liability:

Ohio Family Examples, Tax Year 2006							
Family Status	Income	Taxable Income	Federal EITC	Additional Credits	Federal liability*	Refundable State EITC at 10%	State Liability*
Married, with 2 children	\$20,000	\$0	\$3,859	\$1,322	-\$5,181	\$386	-\$243
Single, with 1 child	\$16,000	\$1,850	\$2,553	\$705	-\$3,258	\$255	-\$105
Single, with 2 children	\$29,000	\$11,550	\$1,542	\$801	-\$2,343	\$154	\$391

Note: These numbers do not account for federal and state withholdings throughout the year so it is likely that the above refunds would be higher. All data based on Tax Year 2006.

\*A negative tax liability indicates a refund from the government.

A refundable EITC at the state level in Ohio could eventually benefit more than 800,000 families. Other states have found that in the first few years of enactment, roughly 10 to 15

<sup>4</sup> Colorado passed a state EITC but suspended it due to the Taxpayer Bill of Rights Amendment. The Colorado Constitution only allows for a state EITC when there is a budget surplus.

<sup>5</sup> For more information of state EITC efforts, see The Hatcher Group at [www.stateeitc.com](http://www.stateeitc.com) and the Center on Budget and Policy Priorities at <http://www.cbpp.org/pubs/eitc.htm>.

<sup>6</sup> Delaware, Iowa, Maine, and Virginia have non-refundable credits.

percent of eligible families do not claim the state credit even if they claim the federal credit.<sup>7</sup> A five percent Ohio EITC would provide the average family \$92 annually, at a cost to the state of about \$67 million, less than one percent of state expenditures (\$21.9 billion) in 2006.<sup>8</sup> A 10 percent Ohio EITC would provide about \$184 to the average family and cost about \$134 million.

<b>A State Earned Income Tax Credit In Ohio (TY 2008)</b>						
Number of claimants	Total cost of an Ohio EITC at 5% of federal	Average Ohio EITC at 5% of federal	Total cost of an Ohio EITC at 10% of federal	Average Ohio EITC at 10% of federal	Total cost of an Ohio EITC at 20% of federal	Average Ohio EITC at 20% of federal
727,000 Families*	\$67 million	\$92	\$134 million	\$184	\$268 million	\$368

\* An estimated 10 percent of Ohio EITC-eligible families will likely not claim the credit in its first few years of enactment.

At least ten states now use a portion of their TANF funds to help pay for a state EITC. This is appropriate because the EITC is targeted to working families earning less than \$38,000 and the vast majority of the credit goes to those with children and those earning substantially less than this ceiling. Federal regulations prohibit TANF dollars from being used to void tax liability at the state level, but funds can be used to refund above the tax liability. TANF funds cannot be used for childless workers, who represent a small portion of EITC recipients and expenditures.<sup>9</sup>

The chart below displays in more depth how a refundable Ohio EITC would break down for families with at least one child. Approximately 21 percent of Ohio EITC recipients are childless workers and would *not* be eligible for refunds based on TANF regulations. Based on the federal EITC scale, workers with children qualify for larger refunds while workers without children account for less than 2.6 percent of the total EITC refund amount in Ohio.<sup>10</sup> The number of childless workers claiming the EITC in Ohio was 163,025 for \$36 million of the \$1.4 billion in total Ohio EITC refunds. As the chart below displays, the majority of the credit is refundable. The refundable portion increases as the credit gets larger. Families with children would receive a \$122 credit at 5 percent and \$245 at 10 percent in Tax Year 2008.

<sup>7</sup> Sloan Kuney and Jason Levitis (2007) “How Much Would a State Earned Income Tax Credit Cost in 2008?” [http://www.cbpp.org/2-7-07sfp.htm#\\_ftn1](http://www.cbpp.org/2-7-07sfp.htm#_ftn1).

<sup>8</sup> As calculated by the Ohio Legislative Service Commission (2006) at <http://www.lbo.state.oh.us/fiscal/budget/testimony/126ga/AgencyHistoricalExpenditures2006-09.pdf>.

<sup>9</sup> See Ami Nagle and Nicholas Johnson “A Hand Up: How State Earned Income Tax Credits Help Working Families Escape Poverty in 2006,” <http://www.cbpp.org/3-8-06sfp.htm>. An estimated 21 percent of Ohio EITC filers are childless workers but account for less than 3 percent of total EITC refund amounts.

<sup>10</sup> Center on Budget and Policy Priority analysis of IRS SPEC data (filed by December, 2006).

<b>Breakdown of a State Earned Income Tax Credit in Ohio for Families with Children (TY 2008) *</b>						
	Total cost of an Ohio EITC at 5% of federal	Average Ohio EITC credit at 5% of federal	Total cost of an Ohio EITC at 10% of federal	Average Ohio EITC credit at 10% of federal	Total cost of an Ohio EITC at 20% of federal	Average Ohio EITC credit at 20% of federal
Portion that offsets Ohio tax	\$26 million	\$49	\$41 million	\$78	\$58 million	\$111
Portion that is refundable	\$38 million	\$73	\$87 million	\$167	\$197 million	\$379
<b>Total</b>	<b>\$65 million</b>	<b>\$122</b>	<b>\$131 million</b>	<b>\$245</b>	<b>\$262 million</b>	<b>\$490</b>

\* Estimates calculated by the Center on Budget and Policy Priorities (2007) based on Ohio's tax structure, GAO reports of working families with children, and IRS data. This estimate is based on the amount of federal EITC that Ohio receives and family structures that receive it.

### EITC OUTREACH

There are ways, beyond enacting a state EITC, in which the program can be made to work better for families. For example, the EITC is often not claimed by eligible participants because they do not file taxes, file incorrectly, or are unaware that the credit exists. The IRS and the Brookings Institution estimate that anywhere from five to 25 percent of those eligible for the credit do not receive it. However, new studies have also shown that some of those who do claim the credit might not be eligible, and levels of claiming vary from community to community. Urban areas, in particular, have large unclaimed EITC rates.<sup>11</sup> We previously estimated that the number of EITC recipients could be expanded by about 15 percent, and there is reason to think that such an estimate remains accurate. It's possible that more than 100,000 eligible families are not taking part. At a minimum, we estimate that participation could be expanded by at least five percent (40,389) with more aggressive outreach.<sup>12</sup> An estimated \$54 million would come to Ohio communities from a five percent increase in EITC outreach and filing.

<b>Expanding the EITC in Ohio</b>			
EITC Claims	Potential short-term increase in EITC recipients in Ohio, with aggressive outreach	Estimated average unclaimed credit <sup>13</sup>	Estimated potential short-term increase in refunds coming

<sup>11</sup> Steven Holt (2006) "The Earned Income Tax Credit at Age 30: What We Know," Brookings Institution at [http://www.brookings.edu/metro/pubs/20060209\\_Holt.htm](http://www.brookings.edu/metro/pubs/20060209_Holt.htm).

<sup>12</sup> See Alan Berube (2006) "Earned Income Credit Participation: What We (Don't) Know," <http://www.brookings.edu/metro/eitcparticipation.pdf>.

<sup>13</sup> This estimate is based on a calculation of 75 percent of the average Ohio EITC credit, such recommendation from Berube (2006). The higher claims for the EITC are from families with two children, many of whom already claim the credit.

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	(at 5% growth)		to Ohio families
807,799	40,389	\$1,338	\$54,040,482

Source: IRS SPEC database and Berube (2006).

Local coalitions in Cuyahoga County and elsewhere in the state have established volunteer income tax assistance centers (VITA sites) to try to increase claims. The IRS VITA program is a community-run entity, where trained and certified volunteers prepare taxes at no cost, for low-income individuals and families. Many of the groups offer other services including financial literacy classes, government benefit assistance, and asset building programs. A coalition in Cuyahoga County, the Cuyahoga EITC Coalition, has helped significant numbers of county residents file their taxes for free.<sup>14</sup> In 2006, Cuyahoga Coalition members brought more than \$4.2 million in EITC and other refunds back into the community. Coalitions in Athens, Franklin, Montgomery, and Summit County have also made substantial progress in free tax preparation. For instance, the Franklin County EITC Coalition, through the Ohio Association of Second Harvest Foodbanks, is in the process of using the Benefit Bank software program, which provides clients with information not only regarding their taxes but also regarding other government and asset development programs for which they are eligible.<sup>15</sup>

The VITA program receives federal support through the IRS SPEC division but resources are limited. A current effort sponsored by Senator Bingham (D-NM) calls for \$10 million for community VITA efforts around the country along with protections against refund-anticipation loans (RALs).<sup>16</sup> Currently, community VITA efforts are not federally funded, though military and elderly tax counseling VITA efforts are federally funded. Free tax preparation and EITC coalitions around the country rely on funding from state and local governments, and contributions from foundations and organizations. The investment has positive implications for the community, creating ripple effects in terms of spending and savings locally by EITC recipients. The table below provides examples of state and local investment in free tax preparation and the EITC. These EITC coalitions and campaigns have important partnerships in the public and private sectors including but not limited to: banks, social service agencies, the United Way, local and state government agencies, and foundations.

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<sup>14</sup> The Cuyahoga EITC Coalition was established in 2004, see [www.refundohio.org](http://www.refundohio.org) for more information.

<sup>15</sup> See the Benefit Bank at <http://www.thebenefitbank.com/about/>.

<sup>16</sup> See S. 382: <http://thomas.loc.gov/cgi-bin/bdquery/z?d109:S.832>.

<b>Volunteer Tax Preparation Efforts</b>		
<b>State/Locality</b>	<b>Campaign Description</b>	<b>Investment</b>
Illinois	Providing support to the Center for Economic Progress for free tax preparation, research, and outreach.	\$390,000
Delaware	Providing and distributing more than 600,000 fliers for the Delaware EITC Campaign.	\$50,000
Philadelphia, Pennsylvania	The State of Pennsylvania, City of Philadelphia, and Governor's office made grants to the Campaign for Working Families, to provide free tax preparation and access to the EITC, other tax credits, public benefits and asset-building resources. The Campaign was launched in 2002 and now includes 21 free tax preparation sites throughout Philadelphia.	\$500,000
Cuyahoga County, Ohio	Provides grant money through TANF for outreach, volunteer recruitment and training, asset development, and free tax filing efforts.	\$200,000
Houston, Texas Tulsa, Oklahoma Phoenix, Arizona	These cities provide Community Development Block Grant funds for EITC outreach and tax preparation. Also have used city budgets or other revenue to provide additional resources to the campaigns.	\$50,000 - \$80,000

### PAID PREPARATION AND REFUND ANTICIPATION LOANS (RALs) IN OHIO

Low-income families who don't go to volunteer tax preparers sometimes don't file, despite being eligible. More often than not, they go to paid preparers who charge high fees to prepare the return and frequently convince filers to purchase high-interest loans that enable them to get their returns a little bit more quickly. In Ohio, nearly 65 percent of those receiving the EITC, or more than 506,000 families, went to paid preparers and, on average, spent \$150 in preparation and administrative fees.

<b>Paid preparation for EITC claimants in Ohio, TY 2004*</b>		
Number of EITC claimants getting paid preparation	Percent of EITC claimants getting paid preparation	Estimated overall cost of paid preparation for EITC claimants (at \$150 each)
506,398	65%	\$75,959,700

Source: Author's calculations, based on IRS SPEC database (2006). Cost figures from Wu and Fox (2007).

\* The Tax Year 2005 numbers for paid preparation and refund-anticipation loans (RALs) were not yet available from the IRS SPEC database, so the Tax Year 2004 numbers are used.

Of EITC recipients who did go to paid preparers, more than 60 percent purchased high interest loans to get their return that day. These loans, called refund anticipation loans (RALs) often have interest rates in the triple-digits. An RAL is a loan from a paid preparer based on a client's

expected return, which carries origination fees and other charges. In combination with other fees, paid preparation can cost a filer anywhere from \$150 to more than \$300.

The National Consumer Law Center estimates that each year, hundreds of millions of dollars that could have gone to families are diverted to refund loans.<sup>17</sup> In Ohio, more than 268,000 families purchased RALs, and as mentioned, more than 500,000 used paid preparers. If these families spent \$150 on tax preparation and \$140 on a loan (a conservative estimate), then Ohio’s low-income families lost more than \$100 million to paid preparers in Tax Year 2004. If the average EITC refund in Ohio was \$1,784 and the average paid preparation and RAL combination was \$290, then Ohioans who purchased these services lost at least 17 percent of their refund.

<b>Refund anticipation loan purchases by EITC claimants in Ohio, Tax Year 2004*</b>				
Number of RALs	RALs as a percentage of all EITC returns	RALs as a percentage of EITC claimants getting paid preparation	Estimated cost of RALs for EITC claimants (at \$140)	Estimated cost of RALs and paid preparation for EITC claimants
268,344	35%	53%	\$37,568,160	\$113,527,860

Source: Author’s calculations, based on IRS SPEC database (2006). Cost figures from Wu and Fox (2007).

\* The Tax Year 2005 numbers for paid preparation and refund-anticipation loans (RALs) were not yet available from the IRS SPEC database, so the Tax Year 2004 numbers are used.

The number of RALs for EITC claimants and total tax filers declined from Tax Year 2003 to Tax Year 2004, both nationally and in Ohio. This decrease in RAL purchases represents a continuing trend since tax year 2001. Nationally, RAL purchases by EITC filers have declined more than 13 percent since 2000 while Ohio saw an 8 percent decrease in the same time period. RAL purchases as a percent of EITC claims have also decreased both nationally and in Ohio, dropping by about ten percentage points at both the state and national level between Tax Year 2000 and Tax Year 2004.

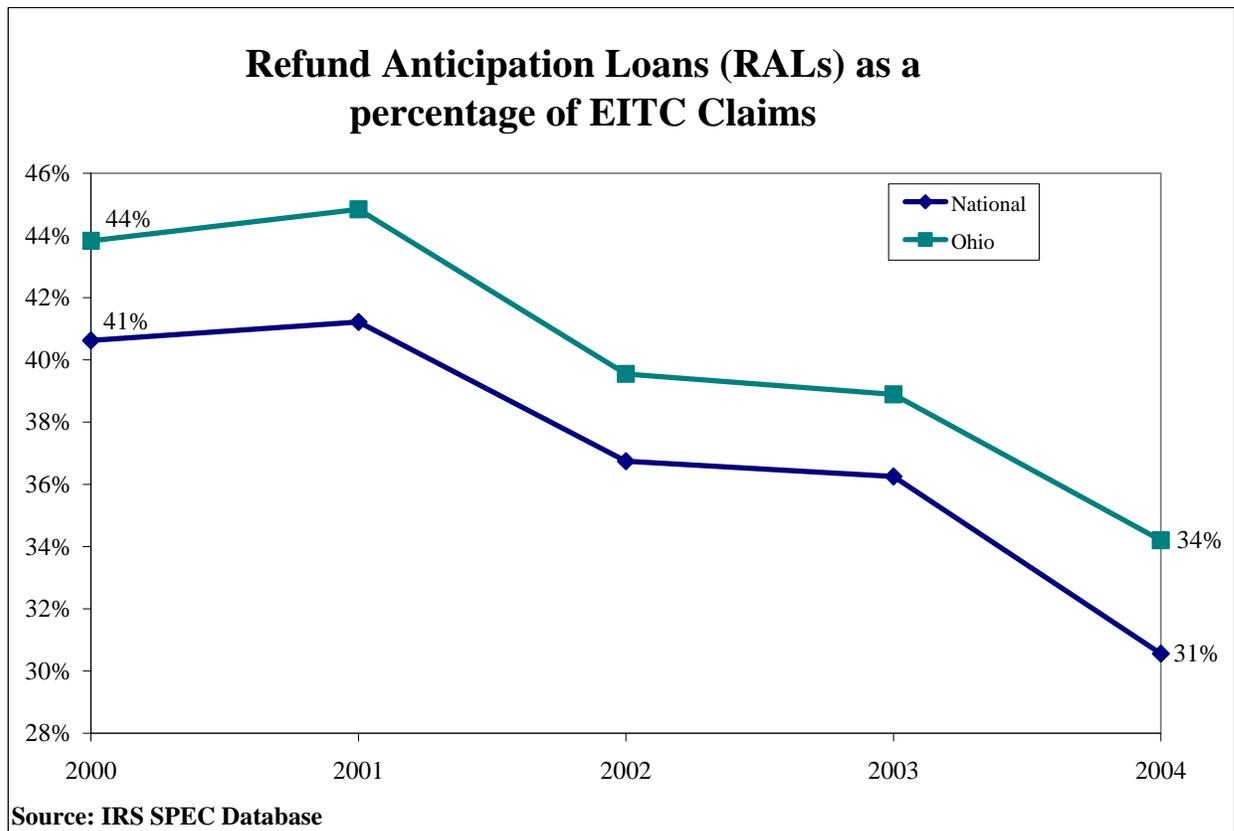
<b>Refund anticipation loan (RAL) trends, Tax Year 2000-2004</b>				
	RALs purchased by EITC filers		RALs as percentage of EITC	
	National	Ohio	National	Ohio
2000	7,655,397	292,584	41%	44%
2001	7,832,706	305,730	41%	45%
2002	7,686,166	296,317	37%	40%
2003	7,769,529	298,943	36%	39%
2004	6,637,135	267,252	31%	35%

Source: Author’s calculations, based on IRS SPEC database (2006).

Several factors can help account for these trends, though experts from the IRS, National Consumer Law Center, and other research groups remain unsure about exactly what accounts for the decrease. The National Consumer Law Center cites changes in the RAL reporting requirement along with increased free tax filing, advocacy against the loans, and increased

<sup>17</sup> See Chi Chi Wu and Jean Ann Fox (2007) “One Step Forward, One Step Back: Progress Seen in Efforts Against High-Priced Refund Anticipation Loans, but Even More Abusive Products Introduced,” <http://www.nclc.org>.

awareness by consumers.<sup>18</sup> While traditional RALs have declined, other high-cost services such as pay-stub and “holiday” RALs based on a person’s projected earnings, have emerged.<sup>19</sup> The products offered change frequently, and some leading tax preparers such as Jackson Hewitt have stopped offering pay-stub RALs.<sup>20</sup> RAL use has declined in Ohio and nationally, but remains higher in Ohio, and still manages to consume large portions of the credits of some filers. The higher rates in Ohio are due, in part, to the fact that some states do a better job of regulating paid preparers and RALs.



### EITC and the Community

Enacting a state EITC and doing more to ensure that eligible families know about the credit, know where to access free preparation services, and know to avoid expensive refund loans are three things that Ohio could do to assist low-income working families and communities in Ohio. Pairing a state EITC with the federal program would also help local communities. The EITC program brings money into communities because much of the credit is spent on basic needs, education, and other local goods and services.<sup>21</sup> Policy Matters Ohio found that many families

<sup>18</sup> Damon Darlin (March 24, 2007) “Tax Loans are Losing Some Allure,” *New York Times*: C1.

<sup>19</sup> Wu and Fox (2007).

<sup>20</sup> Harry Terris (March 16, 2007) “HSBC to End Two Criticized Tax Refund Loan Plans,” *American Banker*: <http://www.nedap.org/documents/3-16-07AmericanBanker.pdf>.

<sup>21</sup> For more information, see Timothy M. Smeeding, Katherin E. Ross, and Michael O’Connor, “The EITC: Expectation, Knowledge, Use, Economic and Social Mobility,” *National Tax Journal*, December 2000.

receiving the EITC use it for paying bills and basic needs, sometimes purchased in the community.<sup>22</sup> Additionally, the study found that many families were “unbanked” but desired financial services and education. Other studies find a direct link from receiving the EITC to wealth and asset building in the community.<sup>23</sup> The EITC remains a non-partisan, highly effective policy for rewarding work and lifting families with children out of poverty.

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<sup>22</sup>David Rothstein, *Who Takes Credit? Earned Income Tax Credit Recipients in Cleveland, 2006*, Policy Matters Ohio, September, 2006: [http://www.policymattersohio.org/eitc/who\\_takes\\_credit\\_2006.htm](http://www.policymattersohio.org/eitc/who_takes_credit_2006.htm).

<sup>23</sup> For two such studies, see The Jacob France Institute, University of Baltimore “The Importance of the Earned Income Tax Credit and Its Economic Effects in Baltimore City,” June 2004 at <http://www.ubalt.edu/jfi/jfi/reports/EITC-rept.pdf>. and Texas Perspectives Inc. “Increased Participation in the Earned Income Tax Credit in San Antonio: 2004 Update,” November 2004 .

## Conclusions and Recommendations

**1. Enact a state EITC.** Enacting a state EITC would help working families with children handle monthly expenses and build assets. Even a small state EITC of ten percent would help low-income families with basic expenses. State EITCs bring additional money into the community and have been linked to increased federal credit claims. Representatives Foley and McGregor introduced legislation (H.B. 17) that would enact an Ohio EITC at 5 percent of the federal credit for the first year of enactment and at 10 percent in subsequent years.<sup>24</sup> A previous report by Policy Matters Ohio, “EITC Gains, RAL Drains,” examined how the EITC would benefit families by Ohio House and Senate Districts.<sup>25</sup> The average House and Senate District received \$13.9 million and \$41.8 million in federal EITC, respectively. A 10 percent Ohio EITC would bring an average of \$1.3 million and \$4.1 million to House and Senate Districts, respectively.

**2. Regulate RALs.** Ohio does little to regulate paid tax preparation. Other states have passed RAL disclosure legislation and Connecticut has a cap on RALs of sixty percent annualized interest.<sup>26</sup> Regulating interest rates that banks and paid sites can charge for RALs and requiring that paid preparers disclose the fact that customers can e-file to receive their full refund in approximately ten days are two potential reforms. State officials, particularly State Attorneys General and Treasurers, have also become active in voicing their concerns about RALs.<sup>27</sup> Former State Senator Mark Mallory of Cincinnati introduced a Tax Refund Protection Act (SB 59) offering several RAL protections to customers in February 2005, but the bill did not leave the Finance Committee in the Senate.<sup>28</sup> This type of legislation should be reintroduced in the Ohio House and Senate. The table below lists important tenets of RAL legislation.<sup>29</sup>

<b>Tenets of RAL Legislation</b>
<ul style="list-style-type: none"> <li>• Cap RAL fees and interest rates by lenders.</li> <li>• Establish a registration process for any business that offers RALs.</li> <li>• Regulate commercial advertising of RALs.</li> <li>• Require that lenders provide a clear explanation of all fees and an explanation of how quickly the refund would be delivered without the loan, both in the form of a wall posting and in a contract that must be signed.</li> <li>• Prohibit mandatory arbitration clauses<sup>30</sup></li> </ul>

<sup>24</sup> [http://www.legislature.state.oh.us/bills.cfm?ID=127\\_HB\\_17](http://www.legislature.state.oh.us/bills.cfm?ID=127_HB_17).

<sup>25</sup> David Rothstein (2007) “EITC Gains, RAL Drains” Policy Matters Ohio: <http://www.policymattersohio.org/eitc/EitcGains2007.htm>.

<sup>26</sup> As of February 2007, ten states have RAL regulation: Connecticut, California, Illinois, Minnesota, Nevada, North Carolina, Oregon, Virginia, Washington State, and Wisconsin.

<sup>27</sup> See Wu and Fox (2007) for details.

<sup>28</sup> See [http://www.legislature.state.oh.us/bills.cfm?ID=126\\_SB\\_59\\_I](http://www.legislature.state.oh.us/bills.cfm?ID=126_SB_59_I) for more information on SB 59.

<sup>29</sup> Adapted from Wu and Fox (2007).

<sup>30</sup> Mandatory arbitration requires that disputes be resolved through a private arbitrator, rather than in court. It is often more costly to consumers and tends to favor businesses over consumers or employees. Clauses enforcing mandatory arbitration typically prohibit consumers from participating in class action lawsuits and do not allow appeals of arbitrator decisions, even if the decisions are clearly against the law. There have been several class action lawsuits involving RAL clients.

**3. Increase funding to the VITA program.** Federal and state policymakers have the opportunity to increase support for the IRS VITA program. A small percentage of eligible low-income families utilize this service. More assistance in the form of advertising, staff, and training would greatly benefit the free filing effort. Increased use of e-filing would also increase the speed of refunds to families. Other states and localities have used TANF dollars and other expenditures to train volunteers at VITA sites and operate sites themselves. This type of investment could have tremendous ripple effects across the state, particularly in counties where VITA sites are not available.

**4. Create and strengthen community efforts.** Cities, municipalities, and counties across Ohio should invest resources in outreach and VITA sites for the EITC program, as Cuyahoga County did in funding a local coalition. Communities see large returns on their investment through wealth and asset building, volunteerism, partnerships between banks and low-income families, and financial literacy training. Community partnerships should include more than government entities and should involve some of the following: social service agencies, banks, universities, non-profit groups, accounting firms, religious institutions, United Way 2-1-1 First Call for Help, and school districts. State support for these efforts, such as the Ohio Commission for the Earned Income Tax Credit co-chaired by U.S. Senator Sherrod Brown and Ohio Treasurer Richard Cordray, are crucial to the success of expanding the credit.<sup>31</sup>

In sum, the Earned Income Tax Credit is a powerful tool for helping Ohio's working families. Adding a state component, better regulating lending associated with the credits, and expanding free tax preparation services would all help this program do even more for Ohio families and communities.

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<sup>31</sup> See the Ohio State Treasurer's Homepage for more information at: [http://www.tos.ohio.gov/index.php?option=com\\_content&task=blogcategory&id=74&Itemid=198](http://www.tos.ohio.gov/index.php?option=com_content&task=blogcategory&id=74&Itemid=198).



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