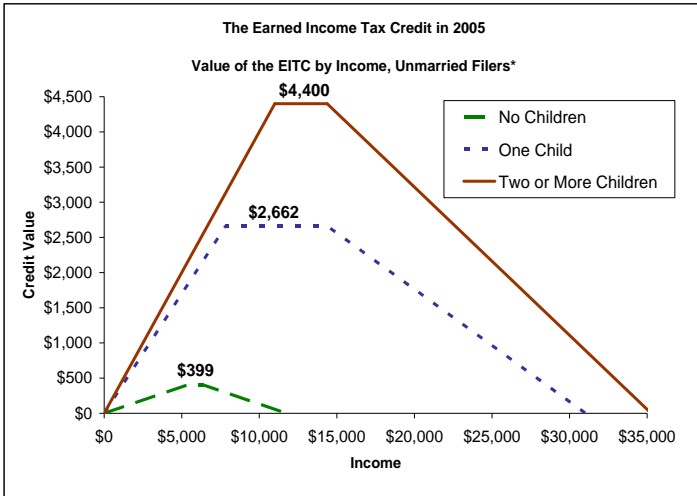


GETTING OHIO'S WORKING FAMILIES THE CREDIT THEY DESERVE: THE EARNED INCOME TAX CREDIT

The federal Earned Income Tax Credit (EITC) is a refundable tax credit available to low- and moderate-income families with at least one employed person. The credit does more to lift low-wage families out of poverty than any other government program. The EITC, which varies in value according to family size, marital status and income, could reach a maximum of \$4,400 in the 2005 tax year.



In 2003, 769,000 Ohio families received \$1.3 billion for an average EITC of approximately \$1,720 per family. The Brookings Institution estimates that at least 15 percent of those eligible do not claim the credit. Local coalitions in Cuyahoga County and elsewhere in the state have established volunteer income tax assistance centers (VITA sites) to increase claims.

The VITA program is a community-run entity, where trained and certified volunteers prepare taxes for **FREE**. In 2006, Cuyahoga EITC Coalition members brought more than \$4 million in EITC and other refunds back into the community.

Low-income families who do not go to volunteer tax preparers sometimes go to paid preparers who often charge high fees to prepare the return, and also often convince filers to purchase high-interest refund anticipation loans (RALs) that allow the filer to get the refund a few days earlier. More than 65% of Ohioans receiving the EITC (500,000 families) went to a paid preparer and more than 60% of those families bought RALs. Ohio families and communities are losing out on more than \$100 million. Paying for these services can cost more than \$300 for a filer eligible for a \$1,500 EITC credit. VITA sites are a much better alternative.

The federal EITC is a proven method for using the tax code to relieve the burden on low-income working families, support work effort, make the tax system more progressive, and stimulate the economy at the same time.

*Learn More about an economy that works for all at
www.policymattersohio.org*

This brief draws upon reports available at www.policymattersohio.org. The reports were written by David Rothstein and Amy Hanauer.

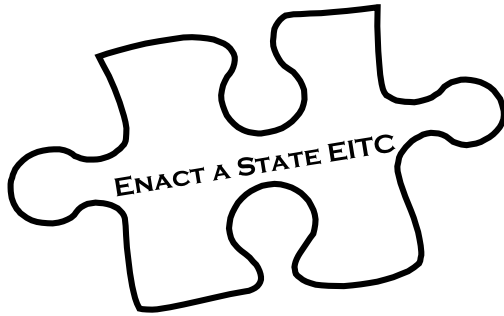
3631 PERKINS AVENUE, CLEVELAND, OH 44114 • WWW.POLICYMATTERSOHIO.ORG • 216/361-9801

POLICY MATTERS OHIO

POLICY MATTERS OHIO

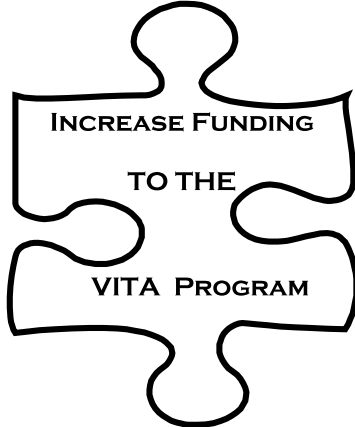
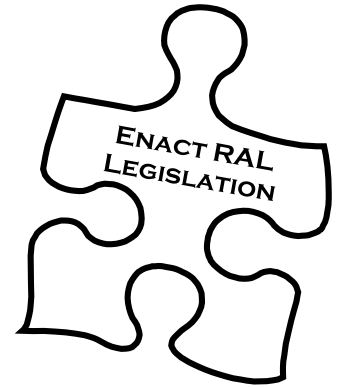
3631 PERKINS AVENUE, CLEVELAND, OH 44114 • WWW.POLICYMATTERSOHIO.ORG • 216/361-9801

PUTTING OHIO'S EITC PIECES TOGETHER



Enacting a state EITC would further help working families with children handle monthly expenses and build assets. An Ohio EITC at 20 percent of the level of the federal credit would bring Ohio working families approximately \$222 million.

Ohio does little to regulate paid tax preparation and loans. Consumers deserve protection. 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 quickly are two potential reforms.



Federal policymakers and local communities have the opportunity to increase support for the VITA program. A small percentage of eligible low-income families utilize this service and 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.

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 social service agencies, banks, area universities, non-profit groups, accounting firms, religious institutions, United Way, and school districts.



Policy Matters Ohio is a nonprofit, nonpartisan research institute dedicated to researching an economy that will work better for all in Ohio. Learn more about Policy Matters Ohio at www.policymattersohio.org.

Learn more about the Cuyahoga EITC Coalition at www.refundohio.org.