Policy Matters Ohio

Ohio needs a state earned income credit

949,000 working families would benefit

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The federal EITC works

The federal Earned Income Tax Credit (EITC) is the nation's largest poverty relief program for working families. Created by President Ford in 1975 and expanded under every presidential administration since, the EITC is lauded for its direct impact in lifting families with children above the poverty line, making work pay, and sending federal dollars to local communities. To qualify for the EITC, the recipient must have earned income of $49,000 or less. The credit is worth substantially more for families with children and is refundable, which means families receive cash refunds above their tax liability.

The federal EITC

949,692
Number of claims in Ohio

$2.1 billion
Total amount brought to Ohio through refunds

$2,211
Average refund in Ohio

Federal EITC already benefits Ohio

In Ohio, the federal EITC benefits more than 949,000 families (17 percent of all tax filers) and brings more than $2 billion to local communities. The average federal EITC refund is $2,211, often equaling three months of pay for a low-wage working family. Empirical research shows that families use their refunds for basic needs, to pay for child-care expenses and on savings.[1] A modest Ohio EITC program, set at 10 percent of the federal credit, would provide the average recipient $221 and would cost the state $210 million per year. A slightly more generous credit, set at 20 percent of the federal credit as in many states, would cost about $420 million per year and would provide families with an average of $442 annually.

An Ohio EITC*

$210 million
Total refund amount for Ohio families

$221
Average refund per family

*Estimates at 10 percent of federal EITC program

State programs supplement federal effort

The federal EITC is so effective that 24 states and the District of Columbia enacted their own state-level programs (see Table 1). Most of the state EITC programs are refundable, ranging from 3.5 percent to 50 percent of the federal credit. States that have enacted EITC programs have a variety of personal income tax structures. A state EITC program enables families to work and build assets while reducing the impact of regressive income tax changes. A state EITC makes sense because recent changes to the personal income tax have provided greater tax reductions for higher-income earners than they have for lower- and middle-income families.[2]

[1] See our series of reports entitled: "Who Takes Credit?" available at: http://bit.ly/IDmFG9.
[2] See our issue brief on Ohio's income tax available at: http://tiny.cc/qi0icw.

Table 1			
State EITC programs			
State	**Year enacted**	**Refundable?**	**Percentage of the federal EITC**
Colorado[3]	1999	Yes	10
Connecticut	2011	Yes	25
Delaware	2005	No	20
D.C.	2000	Yes	40
Illinois[4]	2000	Yes	10
Indiana	1999	Yes	9
Iowa	1989	Yes	7
Kansas	1998	Yes	18
Louisiana	2007	Yes	3.5
Maine	2000	No	5
Maryland	1987	Yes	Refundable to 25 percent, nonrefundable to 50 percent
Massachusetts	1997	Yes	15
Michigan	2006	Yes	6
Minnesota	1991	Yes	Calculated as a percentage of income
Nebraska	2006	Yes	10
New Jersey	2000	Yes	20
New Mexico	2007	Yes	10
New York	1994	Yes	30
North Carolina	2007	Yes	5
Oklahoma	2002	Yes	5
Oregon	1997	Yes	6
Rhode Island	1986	Partially	25
Vermont	1988	Yes	32
Virginia	2004	No	20
Washington[5]	2008	Yes	10 percent *or* $50 (whichever is greater)
Wisconsin	1989	Yes	4 percent – 1 child; 11 percent – 2 children; 34 percent – 3 children

[3] Colorado's EITC is contingent upon the state having surplus revenue, which has not occurred since 2001.
[4] Illinois doubled its refundable EITC from 5 percent to 10 percent in 2012.
[5] The first year of funding will occur in 2012. Washington is the first state without an income tax to pass a state EITC program.