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Congress should approve President's proposal to strengthen the Earned Income Tax Credit

The President's proposed budget for fiscal year 2015 includes several important improvements to the pro-work Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) that, taken together, will reduce poverty among low-wage workers and their families, reduce income inequality, strengthen work incentives and send federal dollars to local communities. Congress should approve these proposals.

Expanding the now-tiny EITC for working childless adults and non-custodial parents ("childless workers"), an idea that has support across the political spectrum, would help 515,000 people in Ohio.¹

In 2013, a childless adult working full time at the minimum wage earned too much to receive the EITC, despite paying significant federal income and payroll taxes. Partly as a result, childless workers are the sole group of workers that the federal tax system taxes into – and in many cases, deeper into – poverty.

For families with children, by contrast, the federal EITC, when combined with the CTC, is our most powerful anti-poverty tool. On average over 2010 to 2012, the two credits lifted 283,000 Ohioans, including 150,000 children, out of poverty each year.²

Raising the maximum EITC for these childless workers and making eligible workers between the ages of 21 and 25 who currently are excluded will substantially increase their after-tax incomes and incentive to work. This is especially important for less-educated young people who may face multiple challenges when beginning their working careers, as it can help them gain a foothold in the economy. A childless worker making just enough to be at the poverty line next year would receive an estimated \$841, according to the Center on Budget and Policy Priorities (CBPP), compared to just \$171 under current law.

The President's proposal also will significantly help low-income working families with children by making important improvements to the EITC and CTC permanent. These improvements, first enacted in 2009 and slated to expire in 2017, have made more low-income working families

¹ Executive Office of the President and the U.S. Treasury Department, "The President's Proposal to Expand the Earned Income Tax Credit," March 2014, p. 19, at http://www.whitehouse.gov/sites/default/files/docs/eitc_report_0.pdf

² Elizabeth Kneebone and Jane R. Williams, "An Anti-Poverty Policy that Works for Working Families," The Brookings Institution, Feb. 11, 2014, at http://www.whitehouse.gov/sites/default/files/docs/eitc_report_0.pdf

eligible and boosted the credit for many others. In 2013, nearly half a million families in Ohio benefited from these improvements.³ They lifted an average of 55,500 Ohioans, including 33,600 children, out of poverty each year between 2009 and 2012.⁴

The EITC has a proven track record of boosting employment among parents. And research has shown that the EITC has important positive long-term impacts on children – helping them do better in school, improving academic performance, and boosting college attendance rates. It would also give a boost to local economies, since EITC dollars are often spent locally. Eligible workers will get to keep more of what they earn and, in turn, spend those dollars in our Ohio communities.⁵

The proposal would pay for the improvements in the federal EITC and the CTC by eliminating two tax breaks for high-income taxpayers.

Congress should take the next step and approve the President’s proposal to improve these important tax credits to encourage work, reduce poverty, and invest in the future of workers in Ohio and across the country. At the same time, it should also approve a higher federal minimum wage, which likewise would reduce poverty and income inequality (See www.policymattersohio.org/minimum-dec2013).

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*Policy Matters Ohio is a nonprofit, nonpartisan state policy research institute
with offices in Cleveland and Columbus.*

³ Citizens for Tax Justice, “The Debate Over Tax Cuts: It’s Not Just About the Rich, at <http://ctj.org/pdf/refundablecredits2012.pdf>

⁴ CBPP analysis of the Census Bureau’s Current Population Survey and SPM public use file.

⁵ Ohio has a state Earned Income Tax Credit, which is worth 5 percent of the federal credit. The number of Ohioans eligible for the state EITC would expand as a result of the President’s proposal. However, limitations on the Ohio credit mean that many of those eligible for the federal credit would not also benefit in the same way from the state credit; the exact number is not known at this time. See Hannah Halbert, A Credit that Counts, Policy Matters Ohio, Oct. 17, 2013 at <http://www.policymattersohio.org/eitc-oct2013> for further explanation of Ohio’s state EITC.