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Federal EITC boosts Cleveland's Promise neighborhood Report makes proposals to fix Ohio's earned income credit

The Central Promise neighborhood is \$5.7 million more prosperous thanks to the federal Earned Income Tax Credit, which helped an estimated 1,900 low-wage working families and individuals in the community make ends meet, according to a new report from Policy Matters Ohio.

But many families in the neighborhood will see no benefit from Ohio's Earned Income Tax Credit (EITC) because of its significant shortcomings. Ohio lawmakers can help Central Promise's effort to create a community where every child can have college and career success by making improvements to the state EITC, which supplements the federal credit.

"The federal EITC supports the mission of the Promise Initiative," said Hannah Halbert, report author and researcher with Policy Matters Ohio. "Kids in EITC families that receive larger EITC credits tend to have higher test scores, higher graduations rates, and higher college attendance rates."

Policy Matters' report looks at the impact of the federal and state EITCs on the Promise neighborhood. Tax filers who claimed the federal EITC in the neighborhood got an average credit of \$3,001, which will help them afford necessities like childcare and transportation.

The Ohio EITC will have a much more limited benefit for the neighborhood. One of the main reasons is that unlike the federal credit, Ohio's isn't "refundable," which allows those qualifying for the EITC to claim a modest refund if the credit exceeds what they owe in taxes. The median gross income of the Promise neighborhood is barely above the threshold for qualifying for Ohio's low-income tax credit, which eliminates tax liability for taxpayers with taxable income less than \$10,000. Because the Ohio EITC isn't refundable, many of these families will see no benefit from it.

In addition, Ohio's EITC is capped for those with taxable income over \$20,000 and set at only 5 percent of the federal credit. Making it one of the weakest credits in the nation.

"The state credit should be better targeted to reach low-income working families," said Halbert. "Making the credit refundable, increasing the amount, and dropping the cap would help keep more kids out of poverty."

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*Policy Matters Ohio is a non-partisan, non-profit policy research institute,
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