

## Ohio Impact: The EITC works for working people

Earned Income Tax Credits (EITCs) help low-wage workers make ends meet, reduce poverty, and increase tax fairness. In 2014, Ohioans filed 963,000 federal EITC claims and received \$2.3 billion in refunds. The average Ohio federal refund of \$2,364 is more than two months of pay for many low-income families. Some 574,516 Ohioans claimed \$68,140,497 in state EITCs in the credit's debut tax year.<sup>1</sup>

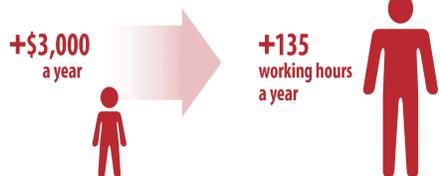
### EITCs help children and families

Lifting low-income family income when a child is young is associated with better health, more schooling, and higher earnings in adulthood.<sup>2</sup> An estimated 177,000 Ohioans,

including 93,000 children, were kept out of poverty by the federal EITC each year from 2010-2013.<sup>3</sup>

#### Higher EITC\* or Other Income for Poor Children Expected to Boost Work Hours and Earnings Later in Life

Change in annual adult work hours associated with \$3,000 annual increase in income to poor children before age 6.



For each \$3,000 a year in added income that children in a poor family receive before age 6...

...their working hours rise by 135 hours a year between ages 25 and 37, and their annual earnings rise by 17%.

\*Earned Income Tax Credit

Sources: Greg J. Duncan, Kathleen M. Ziol-Guest, and Ariel Kallil, "Early-Childhood Poverty and Adult Attainment, Behavior, and Health," *Child Development*, January/February 2010, pp. 306-325

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**The federal EITC helps working Ohioans; the state credit should do more.**

Nearly 1 million Ohioans (963,000) get the federal EITC.

Because of unusual features, only 574,516 Ohioans get the state credit.

The federal EITC delivers \$2.3 billion to Ohio families and communities.

Because of restrictions like no refundability, Ohio's credit gives just \$68 million to Ohio communities.

Ohio families are struggling. More than 47 percent of poor families in Ohio are also working families. More than a quarter (28.4 percent) of all jobs in Ohio are in occupations with median annual pay that won't keep a family of four above the poverty line.<sup>4</sup>

### EITCs fuel local economies

Families use their EITC refunds to make purchases for goods and services in their local communities. Every dollar received by low- and moderate-income families multiplies from 1.5 to 2 times in its impact on the local economy.<sup>5</sup>

<sup>1</sup> Internal Revenue Service, EITC Statistics, available at <http://www.eitc.irs.gov/EITC-Central/eitcstats>, Total federal EITC claimed and returned to Ohio for tax year 2013, on returns filed in 2014; and Ohio Department of Taxation, Gary Gudmundson, Communications Director, email to author December 5, 2014. Total of those claiming EITC on their Ohio return for TY 2013, returns filed in 2014.

<sup>2</sup> Chuck Marr, Chye-Ching Huang, and Arloc Sherman, "Earned Income Tax Credit Promotes Work, Success at School, Research Finds," Center on Budget and Policy Priorities, April 2014, at <http://bit.ly/1ffMmOT>.

<sup>3</sup> The Brookings Institution, State Estimates of People and Children Lifted out of Poverty by the EITC and CTC Each Year, 2011-2013, at <http://brook.gs/1wGEZdQ>.

<sup>4</sup> Working Poor Families Project, Population Reference Bureau analysis of 2013 American Community Survey data and of May 2013 Occupational Employment Statistics.

### **EITCs reduce tax inequality**

Low-income families pay a higher share of income in state and local taxes than wealthier families.<sup>6</sup> The federal EITC was created, in part, to offset the disproportionate impact of payroll taxes on low-wage workers. Strong, refundable state EITCs can help offset the substantial share of income these same taxpayers pay in sales taxes and property taxes.

### **Rural communities benefit from the EITC**

A higher share of rural families claimed the federal EITC than families from metropolitan counties. Nationally, over one in five federal income tax returns from rural county residents claimed the EITC.<sup>7</sup>

### **People from diverse backgrounds benefit from EITC**

In Ohio, the EITC eligible population is 71.5 percent white, 20.1 percent black and 4.5 percent Latino. Most have at least a high school education (52.2 percent), but many (36.5 percent) have some college education or an associate's degree. They also work in a variety of industries. The highest share of EITC eligible workers are in healthcare, retail, hospitality and food service, manufacturing and administrative services.<sup>8</sup>

### **Ohio's EITC should work harder for working people.**

Ohio's tax credit piggybacks on the federal EITC, which helps working families make ends meet and weather financial emergencies. Unlike the federal credit, Ohio's EITC cannot exceed what a taxpayer owes in income taxes, and for a taxpayer with income over \$20,000, it cannot exceed half of what he or she owes in income taxes. That makes the Ohio credit weak. It does relatively little to reduce the substantial share of income these same taxpayers pay in sales taxes and property taxes and cannot reach the majority of Ohio's lowest-earning workers. Because of these limits just 7 percent of the poorest workers – those earning \$19,000 or less – see any benefit from the credit and the benefit is modest.<sup>9</sup>

Ohio's EITC could be a much more powerful tool for helping working families make ends meet and provide for their children. A 16 percent, refundable, non-capped state EITC could return as much as \$357 million a year to families.<sup>10</sup>

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<sup>5</sup> “The Earned Income Tax Credit: Good for Our Families, Communities and Economy,” The National Community Tax Coalition, January 2012, at <http://bit.ly/1MtUZbh>, last accessed January 21, 2015.

<sup>6</sup> Wendy Patton, “Ohio state and local taxes hit poor and middle class the hardest,” Policy Matters Ohio, January 2015, at <http://www.policymattersohio.org/tax-report-jan2015>.

<sup>7</sup> Jon Bailey, “Impact of Earned Income Tax Credit on Rural People,” Center for Rural Affairs, November 2014, at <http://www.cfra.org/news/141107/impact-earned-income-tax-credit-rural-people>.

<sup>8</sup> The Brookings Institution, EITC Interactive, Characteristics of the EITC Eligible Population, at <http://www.brookings.edu/research/interactives/eitc>.

<sup>9</sup> Hannah Halbert, “Out-of-step,” Policy Matters Ohio, August 2014, available at <http://bit.ly/1nJmfn5>. Estimates based on modeling by the Institute on Taxation and Economic Policy. EITC impact measured from baseline of no credit, 7 percent of the lowest income workers see a tax cut from the existing credit, with an average tax cut of only \$60.

<sup>10</sup> Cost estimate of a 16 percent, refundable, non-capped Ohio EITC for the coming fiscal year based on Internal Revenue Service and Joint Committee on Taxation (JCT) data. See, Center on Budget and Policy Priorities, “How much would a state Earned Income Tax Credit cost in fiscal year 2016?” January 2015, at <http://bit.ly/1n42SFZ>. This estimate includes the cost of the existing state EITC.