

## Making Ohio's EITC work for workers

By Hannah Halbert, Kalitha Williams and Kate Lewis-Lakin

Ohio's Earned Income Tax Credit (EITC) could be a much more powerful tool for helping working families make ends meet and provide for their children. Just 7 percent of Ohio's poorest workers – those earning \$19,000 or less – see any benefit from the credit, and the benefit is modest.<sup>1</sup> Unlike the federal credit, Ohio's EITC cannot exceed what a taxpayer owes in income taxes. Further, for those earning more than \$20,000, the credit cannot exceed more than half of what is owed in income tax. That means that it does nothing to reduce the substantial share of income these same taxpayers pay in sales taxes and property taxes.

If lawmakers fixed these flaws, the state EITC would reach far more of the workers who need it most and be a better-targeted income support. Just removing the cap and making the credit refundable would benefit 30 percent of Ohio's poorest workers.<sup>2</sup> Raising the state credit from 5 percent to 16 percent of the federal credit would give the EITC more power to help working families. These changes would bring Ohio's credit in line with other states with refundable EITCs. Altogether the changes would provide a tax cut to one-third of Ohio's lowest-income workers, with an average tax change of \$310 a year.<sup>3</sup> A 16 percent, refundable, non-capped state EITC could return as much as \$357 million a year to families.<sup>4</sup>

### Ohio EITC: a step in the right direction

<sup>1</sup> Hannah Halbert, "Out-of-step," Policy Matters Ohio, August 2014, at <http://www.policymattersohio.org/out-of-step-aug-2014>. Estimates based on modeling by 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 savings of only \$60.

<sup>2</sup> *Id.* The estimated cost of a 10 percent refundable, uncapped EITC is \$223 million. This reflects the total cost of the credit and includes the amount the state is already spending on the existing EITC. Reforming the existing credit would cost less than these estimates. See, Center on Budget and Policy Priorities, "How much would a state Earned Income Tax Credit cost in fiscal year 2016," January 2015, available at <http://www.cbpp.org/cms/index.cfm?fa=view&id=2992>, accessed February 14, 2015.

<sup>3</sup> Hannah Halbert, *supra* note 1.

<sup>4</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, *supra* at note 2. This estimate includes the cost of the existing state EITC.

**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's tax credit piggybacks on the federal EITC, which helps working families make ends meet and weather financial emergencies. The federal EITC is fully refundable, a key feature that makes it so effective. This means it offsets some of the other substantial taxes that low-income families pay, including gas and payroll taxes, and it lets workers keep more of what they earn so they can afford the basics. Nearly 1 million working Ohioans claimed \$2.3 billion in federal EITC last year.<sup>5</sup> The credit makes low-paid work viable by helping workers make ends meet. It also gives our state economy a boost.<sup>6</sup> Even though families typically only claim the federal EITC for one or two years at a time, it substantially reduces poverty and boosts earnings.<sup>7</sup> The federal EITC alone helped 177,000 Ohioans, including 93,000 children, stay out of poverty each year from 2011 to 2013, and it eased poverty for many more.<sup>8</sup> The income boost families receive from the EITC has long-range benefits for kids, improving infant health, school achievement and college attendance rates.<sup>9</sup>

In 2013, its debut tax year, Ohio's state EITC was 5 percent of the federal credit. But not everyone eligible for the federal credit got the state EITC, and many of those who got it didn't receive the full 5 percent of their federal credit. This is because of limits discussed above. As a result, families with very low incomes or whose income taxes were eliminated by other tax credits saw no benefit from the Ohio EITC. All told, 574,516 Ohioans claimed \$68.1 million in reduced state tax liability, according to the Ohio Department of Taxation, less than three percent of what the federal credit delivered to our communities.<sup>10</sup> Lawmakers recently increased the state EITC to 10 percent of the federal

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<sup>5</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.

<sup>6</sup> Every dollar received by low- and moderate-income families provides between \$1.50 and \$2.00 to the local economy. See "The Earned Income Tax Credit: Good for Our Families, Communities and Economy," National Community Tax Coalition, January 2012, at [http://www.taxcreditsforworkingfamilies.org/wp-content/uploads/2012/01/NCTC-EITC-paper\\_Jan2012.pdf](http://www.taxcreditsforworkingfamilies.org/wp-content/uploads/2012/01/NCTC-EITC-paper_Jan2012.pdf), accessed January 21, 2015.

<sup>7</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, available at <http://www.cbpp.org/cms/?fa=view&id=3793>.

<sup>8</sup> The Brookings Institution, State Estimates of People and Children Lifted out of Poverty by the EITC and CTC Each Year, 2011-2013, available at

<http://www.brookings.edu/~media/Research/Files/Blogs/2014/12/16%20eitc/2013%20SPM%20State%20EITC%20and%20CTCACTC.pdf>

<sup>9</sup> Marr, Huang, and Sherman, *supra* at note 7. Children in households receiving larger EITCs tend to do better academically than children receiving smaller or no EITCs. These students have higher test scores, particularly in math, higher high school graduation rates, and higher college attendance rates. Similarly, research has found that mothers who received the largest increases in the EITC compared to mothers who received smaller credits were more likely to receive prenatal care and less likely to smoke or drink during pregnancy. These were improvements that were not linked to changes in health insurance coverage.

<sup>10</sup> Ohio Department of Taxation, Gary Gudmundson, Communications Director, email to author December 5, 2014. Total of those claiming the Ohio EITC on their Ohio return for TY 2013, returns filed in 2014. The actual tax impact of the state EITC is likely slightly smaller. The number and amount of state EITC claims reflects the total claimed on line 14 of the income tax form. For those with Ohio Taxable Income of less than \$20,000 this is just 5 percent of their federal credit. For those with higher incomes, this line is either 5 percent of the federal credit or 50 percent of their tax liability after applying all other credits and deductions, except the joint filing credit, whichever is less. Line 14 calculations include credits like the personal exemption for those with more than \$20,000 in Ohio taxable income but not for those with less income. For those with less, their line 14 calculation stops early. The interaction of these credits may

credit, an excellent move. However, that increase will benefit relatively few of the poorest working Ohioans because the credit is not refundable.<sup>11</sup> More than 47 percent of poor families in Ohio are also working families.<sup>12</sup> 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>13</sup> Ohio's credit is a step in the right direction, but could better serve these families and build on the federal credit if it was also refundable.

## Who claims the EITC?

Families in every Ohio county claim the federal EITC, with a bigger share of tax filers from rural counties than from urban counties claiming the credit.<sup>14</sup> Working parents with children benefit the most. Families managing a crisis or transition, like a spouse being laid off work or the birth of a baby, often rely on the EITC as a short-term support. The credit helps working mothers increase work hours and earnings.<sup>15</sup> The EITC also helps military families. About 55,000 families that include veterans or active-duty soldiers, sailors, airmen, guardsmen, and Marines in Ohio receive the EITC or the low-income component of the Child Tax Credit.<sup>16</sup>

More than 2.5 million Ohioans, including more than 1.1 million children, are in families eligible for the federal EITC, according to the Brookings Institution.<sup>17</sup> As Figure 1 shows, the federal EITC cuts across race, ethnicity, and education lines, although a majority of the eligible population is white (71.5 percent), and a slight majority has no more than a high school education (52.2 percent).

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reduce or eliminate the impact of the EITC, but not the amount claimed on line 14. The EITC worksheet include Schedule A income adjustments, the personal and dependent exemption, and a note that if the filer claims the low-income credit then they do not benefit and should not complete line 14. *See* Ohio 2013 Income Tax filing instructions, Ohio Earned Income Credit Worksheet, p. 20, at [http://www.tax.ohio.gov/portals/0/forms/ohio\\_individual/individual/2013/PIT\\_IT1040\\_Booklet.pdf](http://www.tax.ohio.gov/portals/0/forms/ohio_individual/individual/2013/PIT_IT1040_Booklet.pdf).

<sup>11</sup> *See*, Hannah Halbert, *supra* at note 1.

<sup>12</sup> Working Poor Families Project, Population Reference Bureau analysis of 2013 American Community Survey data.

<sup>13</sup> Working Poor Families Project, Population Reference Bureau analysis of May 2013 Occupational Employment Statistics.

<sup>14</sup> Jon Bailey, "Impact of Earned Income Tax Credit on Rural People," Center for Rural Affairs, November 2014, available at <http://www.cfra.org/news/141107/impact-earned-income-tax-credit-rural-people>.

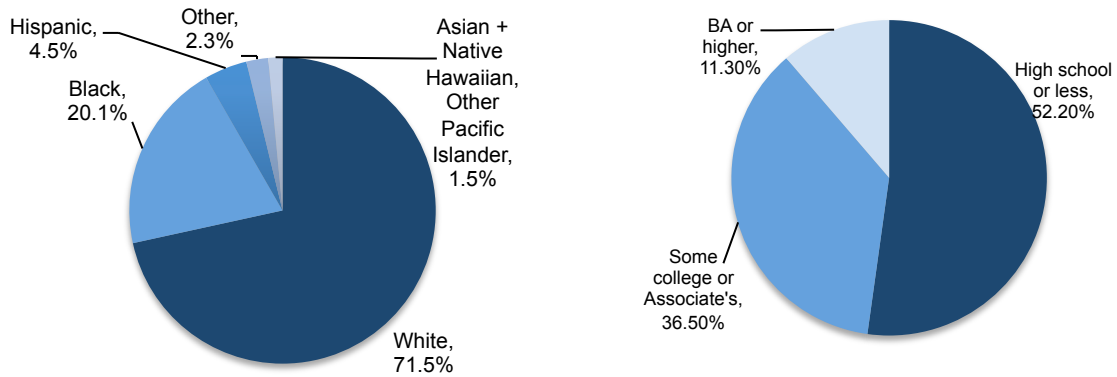
<sup>15</sup> Marr, Huang, and Sherman, *supra* at note 7.

<sup>16</sup> Policy Matters Ohio, "Working family tax credits help Ohio's military families," July 2013, available at <http://www.policymattersohio.org/military-jul2013>.

<sup>17</sup> The Brookings Institution, EITC Interactive, Characteristics of the EITC Eligible Population, available at <http://www.brookings.edu/research/interactives/eitc>. Model uses 2012 American Community Survey microdata to model tax units and eligibility across a geographic population. This allows Brookings to estimate eligible population and not just report those claiming the federal EITC in a particular year. It also lets Brookings compile demographic and other characteristic data about the eligible population. Generally, people pay taxes as family units. Brookings uses the phrase "tax-unit" rather than family or household, in part because there may be multiple tax-units or families in one household. *See*, technical guide at [http://www.brookings.edu/~media/Research/Files/Reports/2008/6/05%20metro%20raise%20berube/metro\\_raise\\_technicalappendix.PDF](http://www.brookings.edu/~media/Research/Files/Reports/2008/6/05%20metro%20raise%20berube/metro_raise_technicalappendix.PDF).

Figure 1

### EITC helps Ohioans 2013 Profile of Ohio's EITC-eligible population

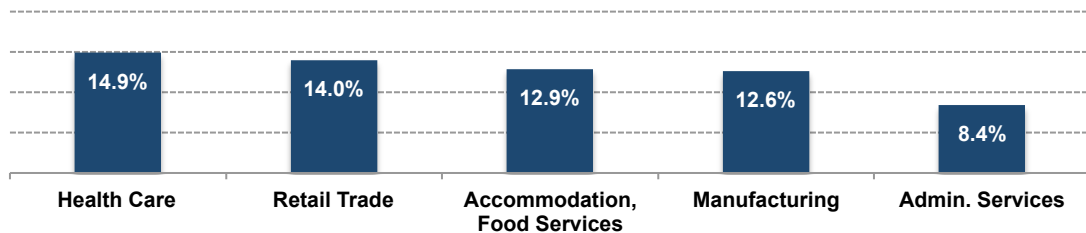


Source: The Brookings Institution, EITC Interactive, Characteristics of the EITC Eligible Population, available at <http://www.brookings.edu/research/interactives/eitc>. Tax model uses 2012 American Community Survey microdata to model tax units and eligibility.

The EITC only goes to workers. Figure 2 shows, the top industries where federal EITC-eligible Ohioans work. Health care (14.9 percent), retail (14.0 percent), accommodations and food service (12.9 percent), manufacturing (12.6), and administrative services (8.4 percent) are the industries with the highest share of EITC eligible workers.

Figure 2

### Ohio's EITC-eligible population works Ohio Industries with highest share of EITC eligible workers.



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

## **Ohio's EITC could do more for working families.**

Low- and middle-income Ohioans already pay a much greater share of their income in state and local taxes than the most affluent do.<sup>18</sup> Ohio has the 18<sup>th</sup> most unfair tax system in the nation, according to the Institute on Taxation and Economic Policy.<sup>19</sup> The federal EITC was, in part, designed to eliminate some of the disproportionate impact of payroll taxes on low- and middle-income working families. Likewise, the state credit should address the disproportionate impact of sales and property taxes on Ohio's working families. If Ohio's credit were brought in line with the average state EITC, the credit would provide more substantial income support, easing poverty and hardship. Making these changes would help ensure the Ohio EITC is a credit that works for working families.

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<sup>18</sup> Wendy Patton, "Ohio state and local taxes hit poor and middle class the hardest," Policy Matters Ohio, January 2015, available at <http://www.policymattersohio.org/tax-report-jan2015>.

<sup>19</sup> *Id.*