

For immediate release

January 27, 2017

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Ohio's EITC needs reform

Report shows credit could do more to keep working families out of poverty

Most states with an Earned Income Tax Credit (EITC) use it to put money back in working people's pockets and balance the state tax code. But according to a new report released today by Policy Matters Ohio, the state's EITC is too weak to work.

The Ohio EITC is one of the weakest in the nation. It does nothing for 92 percent of the poorest Ohioans. The 8 percent who do benefit from the tax credit save an average of only \$70. Ohio's credit is nonrefundable, capped for people with taxable income over 20,000 and set at only 10 percent of the federal EITC.

"The EITC is supposed to do more than just reduce or eliminate income tax liability," said Hannah Halbert, report author and Policy Matters researcher. "It should help people stay in the workforce, keep low-wage working families out of poverty and make up for the fact that low-income people pay more of their income in state and local taxes than their wealthier counterparts do. Ohio's EITC does little to support these goals."

The report recommends that Ohio lawmakers make three improvements to the state EITC. First, they should make the state EITC refundable so working families receive their full credit. Second, Ohio should remove the credit cap for people making more than \$20,000. Third, Ohio should increase its credit from 10 percent to 20 percent of the federal EITC. These changes would give 38 percent of the poorest Ohioans an average tax cut of \$451, mostly in the form of a refund. The vast majority of this money goes back into the local economy.

"A strong state EITC gives a modest income boost to low-wage workers and leverages the many benefits of the federal EITC," Halbert said, "but it won't work if the credit is poorly designed."

The report was released on National EITC awareness day. The federal EITC is one of the most effective anti-poverty policies on the books. Last tax year, more than 939,000 Ohioans claimed the federal EITC, keeping \$2.3 billion in the pockets of working people.

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