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## **Refundable tax credits for working families put kids first**

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# Executive Summary

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## WHAT IS THE OHIO EARNED INCOME TAX CREDIT?

Poverty rates in Ohio remain high despite improvements in the job market. There were still 115,000 more Ohioans living in poverty in 2017 than in the year prior to the last recession. Child poverty is exceedingly high. Cleveland has the highest child poverty in the nation -- nearly half of all kids. Cincinnati had the third highest child poverty rate in the nation. More than 513,000 Ohio kids lived below the poverty line last year. This has long term consequences for our children and our state. Policy makers have failed to address this crisis. The Earned Income Tax Credit (EITC) is a tax policy designed to help. Yet, Ohio's EITC remains one of the weakest in the nation.

The federal government, 26 states and Washington D.C. have EITCs. EITCs are among the most effective poverty reduction strategies in the nation. Ohioans are eligible for the state EITC if they receive the federal credit and have earned income within set guidelines. When the Ohio EITC was enacted in 2013, legislators made three policy decisions that limited the credit's effectiveness. The Ohio credit is not refundable. It has an odd income cap, and the credit is also smaller than average state credits.

Refundability allows workers to get the full value of their credit regardless of their income tax liability. In refundable states, the amount of the credit that exceeds the taxpayer's state income tax liability is returned as a tax refund. For example, the average Ohio EITC for people earning between \$23,000 and \$40,000 is \$120. If the claimant has \$100 in tax liability, then the remaining \$20 of EITC is simply lost. In a refundable state, the \$20 would be returned as part of a tax refund. Only four states, including Ohio, make their credits nonrefundable.

The income cap is also limiting. A claimant with taxable income over \$20,000 can claim only half their total income tax liability as their EITC, even if they are otherwise eligible for more. This creates a benefit cliff in a policy that was originally designed to smooth the transition from public benefit assistance to higher paid work. The value of the credit is also low, at just 10 percent of the federal amount. The Ohio credit is so weak that 95 percent of the poorest Ohioans get nothing from it.

## REFUNDABLE TAX CREDITS WILL HELP KIDS SUCCEED

Strengthening the state EITC will help kids succeed. The bump in income has long-term positive effects on children from cradle to adulthood. The credit is correlated with healthier babies and improved college enrollment. Rates of low birth weight decrease with increased EITC income. The federal EITC reduces child poverty and helps kids start out on a more level playing field. Despite all the potential returns to community health and family stability, policymakers have refused to extend these same benefits to the working families in Ohio.

Policy choices have exacerbated inequality and made it harder for families to make ends meet. Tax cuts for businesses and the wealthy combined with increased sales taxes mean

poorer Ohioans pay a higher share of their income in taxes than the wealthy do. These changes mean working parents, often working moms, pay a higher share of their income in state and local taxes. It also means is less money for investments to give their kids a healthy start. Ohio is changing how child support is calculated. To help low-wage parents better meet their support payments, child support orders will be reduced for many. This change, effective in 2019, will primarily hit children of low-income working parents.

## HOW CAN POLICYMAKERS PRIORITIZE KIDS BY REFORMING THE EITC?

Making the existing credit refundable would be a strong step in the right direction. Tax modeling estimates this change to cost \$175.5 million. This alone would extend the benefits of the credit to an additional 34 percent of the poorest in Ohio, with an average EITC value of \$241. The EITC would help an additional 15 percent of Ohioans with incomes between \$23,000 and \$40,000, and another 5 percent of those with incomes between \$40,000 and \$61,000. These taxpayers would claim average tax cuts of \$280 and \$357, respectively. Fully fixing the credit by making it refundable, eliminating the cap, and raising the amount to 20 percent of the federal would mean an additional 35 percent of the poorest working families would see a tax cut and likely additional income support, averaging about \$473 per claimant. In total, it would send more than \$427.5 million back to families and local economies. The table illustrates what these changes would mean for two hypothetical families hit hard by the child support changes.

<b>EITC reform a boon to working families</b>		
<b>Impact of the EITC, sales tax, and child support changes on working families</b>		
	<b>Custodial parent, 3 kids</b>	
Earned income	\$16,800	\$24,000
Taxable income	\$7,600	\$14,800
Income tax liability	\$0	\$161
Estimated state and local sales tax	\$417	\$647
Estimated loss of child support	\$3,024	\$3,562
Value of current EITC	\$0	\$161
Estimated refundable portion of a 20% refundable non- capped EITC	\$1,264	\$863
Estimated refundable portion of a 10%, refundable non-capped EITC	\$632	\$351

# Introduction

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The EITC works for working families. Ohio can make its credit work better by making it more like the EITC in other states. Doing so can also help make up for recent changes to child support. Ohio's children deserve an EITC that really works.

As policymakers consider more tax cuts during the lame duck session, one key reform is missing: refundable tax credits for working Ohioans. Ohio has no refundable tax credits for working people. Instead the state spends millions to provide refundable credits to certain business owners and tens of millions for corporations.<sup>1</sup> Refundable credits such as the federal Earned Income Tax Credit send much-needed income to workers. The bump in income has long-term positive effects on children. The federal refundable EITC helps children in poor working families from cradle to adulthood. The credit is correlated with healthier babies and improved college enrollment rates.<sup>2</sup> Rates of low birth weight decrease with increased EITC income.<sup>3</sup> The federal EITC reduces child poverty and helps kids start out on a more level playing field. Despite all the potential returns to community health and family stability, policymakers in Ohio have refused to extend these same benefits to the working families in this state. The Ohio credit remains nonrefundable and so weak that 95 percent of the poorest Ohioans get nothing from it.

The need is urgent. Child poverty is exceedingly high. Nearly 20 percent of Ohio's children live in households that don't earn enough to be above the poverty line.<sup>4</sup> Cleveland has the highest child poverty in the nation with nearly half of all kids living in poverty (48.7 percent).<sup>5</sup> Cincinnati had the third highest rate in the nation with 46.4 percent of kids in poverty. More than 513,000 Ohio kids lived below the poverty line last year.

Poverty rates remain high despite improvements in the job market and an unemployment rate that averaged 5 percent last year. There were still 115,000 more Ohioans in poverty in 2017 than in the year prior to the last recession.<sup>6</sup> Separate data from the Working Poor Families Project found that more than 70 percent of families earning less than 200 percent of poverty are working families and that a third of Ohio children live in these low-income working families.<sup>7</sup> Too many jobs in Ohio simply don't pay enough for families to meet basic needs. Six of the ten most common jobs in the state pay too little to keep a family of three from needing and being eligible for food assistance even with full-time year-round work. Only 2 of the ten pay enough to put a modest 2-bedroom apartment within reach.<sup>8</sup>

Ohio's tax code could improve these statistics and the lives they measure. Instead, policy choices have exacerbated inequality and made it harder for low-income families to make ends

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<sup>1</sup> Ohio Department of Taxation, All Returns by Ohio Taxable Income, Tax Year 2016, at <https://bit.ly/2QmFzMO>, accessed 10/24/18. Ohio offers refundable tax credits for historic preservation, job creation and retention, pas-through entity income, motion picture production, some financial institutions income, and venture capitalists.

<sup>2</sup> Chuck Marr, Chye-Ching Huang, and Arloc Sherman, Earned Income Tax Credit Promotes Work, Encourages Children's Success at School, Research finds." Center on Budget and Policy Priorities, April 15, 2014, at <https://bit.ly/2fQn5P>.

<sup>3</sup> \$1,000 of EITC income reduced rates of low birth weight by 7 percent overall, and by 8.2 percent among African Americans. Hilary E. Hoynes, Douglas L. Miller, and David Simon, "The EITC: Linking Income to Real Health Outcomes," Center for Poverty Research, UC Davis, at <https://poverty.ucdavis.edu/policy-brief/linking-eitc-income-real-health-outcomes>, accessed October 24, 2018.

<sup>4</sup> US Census Bureau, American Community Survey, 2017

<sup>5</sup> *Id.*

<sup>6</sup> Hannah Halbert, "New Census data confirm policy action needed," September 2018, at <https://bit.ly/2NdNoXt>, accessed 10/24/18.

<sup>7</sup> Working Poor Families Project, Population Reference Bureau analysis of American Community Survey (ACS) 2016.

<sup>8</sup> National Low Income Housing Coalition and COOHIO, "Out of Reach: The high cost of housing, 2018, available at <https://cohhio.org/report-ohio-jobs-dont-pay-enough-to-afford-the-rent/>, accessed September 7, 2018.

meet. Tax cuts for businesses and the wealthy combined with increased sales taxes mean poorer Ohioans pay a higher share of their income in taxes than the wealthy do.<sup>9</sup>

Ohio is changing how child support is calculated. To help low-wage parents better meet their support payments, child support orders will be reduced for many. Effective in 2019, this will primarily hit children of low-income working parents. Refundable tax credits for working families could mitigate these changes. Ohio’s most vulnerable kids need all the advantages a refundable EITC can provide, but design flaws cut the credit, and our kids, short.

Ohio should put kids first. Making the existing credit refundable would be a strong step in the right direction. Tax modeling from the Institute on Taxation and Economic Policy (ITEP), a national organization with a sophisticated model of the state tax system, estimates this change to cost \$175.5 million. This alone would extend the benefits of the credit to an additional 34 percent of the poorest in Ohio, with an average EITC value of \$241. The EITC would help an additional 15 percent of Ohioans with incomes between \$23,000 and \$40,000, and another 5 percent of Ohioans with incomes between \$40,000 and \$61,000. These categories of taxpayers would claim average tax cuts of \$280 and \$357, respectively.

A 20 percent refundable EITC that does not have Ohio’s unique income cap would do substantially more for families, make the tax system fairer, and help smooth benefit cliffs that sometimes happen when families earn more, becoming ineligible for essential public supports like childcare or housing before they earn enough to no longer need the help. Making the Ohio credit mirror the federal credit would mean families would receive direct income support related to their work effort, and the credit would slowly phase out as earnings increase. The current credit contains a cliff at income of \$20,000. These reforms would mean the state EITC would reach an additional 35 percent of the poorest working families and save on average \$473 per claimant. In total, it would send more than \$427.5 million back to families and local economies.

## Ohio’s EITC is too weak to work

When the Ohio EITC was enacted in 2013, legislators made three policy decisions that limited the credit’s effectiveness. The Ohio credit is not refundable. It has an odd income cap that sharply limits the credit to those making over \$20,000, lacking the benefit cliff smoothing effect that is an integral part of the federal credit and nearly all other state EITC models. The credit is also smaller than average state credits. Ohioans are eligible for the state EITC if they receive the federal credit. To qualify for the federal EITC, claimants must have earned income and their income cannot exceed the guidelines shown in Table 1.

Table 1				
Federal EITC income limits for 2018				
If filing...	Number of Qualifying Children			
	Zero	One	Two	Three or More
Single, Head of Household	\$15,270	\$40,320	\$45,802	\$49,194
Married, Jointly	\$20,950	\$46,010	\$51,492	\$54,884

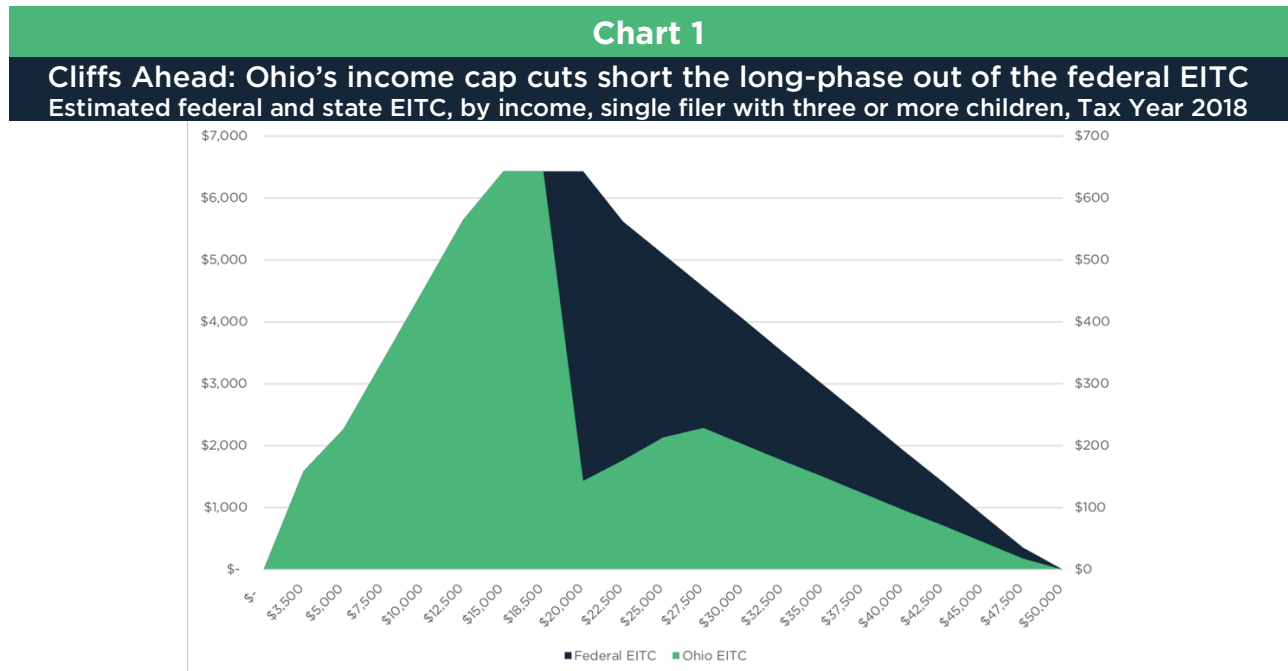
Source: Center on Budget and Policy Priorities, *Policy Basics*, at <https://bit.ly/2ELc1Xx>

<sup>9</sup> Institute on Taxation and Economic Policy, “Who Pays 6<sup>th</sup> edition, Ohio” available at <https://itep.org/ohio/>, accessed October 24, 2018. Ohio has the 13<sup>th</sup> most unfair tax system in the nation.

The federal EITC is designed to have a long phase out. This means the value of the credit rises sharply as workers earn more, until reaching a maximum, then slowly declines as workers have more earned income. This structure helps smooth benefit cliffs; as income grows, the EITC remains in place to help families make ends meet as they no longer qualify for other types of assistance. The long phase out also means the federal EITC does not have a built-in cliff, so earning more does not mean claimants are left worse off.

The Ohio credit caps tax filers' EITC benefit prematurely, cutting short the phase-out and limiting the state credit's power to leverage the benefit-smoothing effect of the federal EITC. Once a tax filer's taxable income exceeds \$20,000 their maximum EITC is half of the total income tax due after applying all other credits and deduction except the Joint Filer Credit. This means for families with moderate incomes, the Ohio EITC does not even eliminate their income tax liability. For example, a breadwinner with three children with \$20,000 in taxable income is eligible for the maximum federal credit, \$6,431. They can claim 10 percent of that amount as their maximum possible Ohio EITC, \$643. This would eliminate their income tax bill, which is about \$205. If the credit were refundable, send about \$438 back to the family as part of their state tax refund. If that same filer has just \$1 more in taxable income, just \$20,001, then they can only claim half of the tax due as their EITC amount.<sup>10</sup> In this example, that would be just \$103 in Ohio EITC, potentially leaving the family with a \$103 income tax bill.

The Ohio EITC should be designed to mitigate benefit cliffs, not create new ones. The income creates a sharp drop at \$20,000 in taxable income, then climbs in value when the Ohio EITC amount is less than half the taxes owed. The actual impact of the cap is based on each tax filer's specific situation. Chart 1 is an estimate of this overall impact and shows how Ohio's credit creates an additional cliff, particularly for families at a critical point of income transition.



Source: Policy Matters based on EITC calculator at <https://bit.ly/2ELc1Xx>, accessed 10/2/18. Ohio credit amount on right axis.

<sup>10</sup> Example assumes the filer only claims the personal deductions and personal exemptions credit. Hypothetical based on 2017 tax code and brackets.

Two federal refundable tax credits, the EITC and the Child and Dependent Care credit, lifted 8.3 million people out of poverty in 2017.<sup>11</sup> These credits returned sizeable amounts of money to working families. The Ohio EITC is 10 percent of a filer’s federal EITC amount. For example, a family with two children receiving the maximum allowable federal EITC would qualify for an Ohio tax credit of \$572. The federal, and therefore the state credit offer very little assistance to workers without children. These claimants only qualify for a maximum of \$519, making the maximum Ohio credit for these workers about \$50. Table 2 shows the maximum federal and Ohio EITC amounts for 2018.

Table 2				
EITC income limits and maximum credit amounts				
	Number of Qualifying Children			
	Zero	One	Two	Three or More
Federal	\$519	\$3,461	\$5,716	\$6,431
Ohio	\$52	\$346	\$572	\$643
Ohio (if income exceeds \$20,000)	\$26	\$173	\$286	\$322

Source: Policy Matters calculation based on federal EITC at <https://bit.ly/2hwhsc4>, accessed 10/11/18.

Ohio’s EITC structure is ineffective. The maximum credit amounts appear to be an advantage to these families. However the way the credit interacts with other credits and exemptions means that very few of the poorest Ohio families actually see any benefit from the credit. The EITC has great potential but without refundability, it has very little effect.

Tax modeling from ITEP shows that Ohio’s EITC reaches just 5 percent of the neediest Ohioans, that fifth of state residents who earn less than \$23,000 a year. Only 18 percent of Ohioans with incomes between \$23,000 and \$40,000 see some benefit from the EITC and 10 percent of middle-income Ohioans earning between \$40,000 and \$61,000 do. The average annual tax cut for those benefiting is very low. The lowest income Ohioans receive, on average, just \$37 in savings. Low-income Ohioans receive \$120 in saving, on average. Middle income Ohioans get just \$78 in savings. Table 3 shows the impact of the existing credit.

Table 3			
Ohio EITC is too weak to work			
Effect of current credit by income class			
	Poorest Ohioans	Low-income Ohioans	Middle-income Ohioans
Income range	Less than \$23,000	\$23,000-\$40,000	\$40,000-\$61,000
Average income	\$14,000	\$31,000	\$50,000
Share receiving EITC tax cut	5%	18%	10%
Average EITC tax savings	\$37	\$120	\$78
Share of Ohioans getting <b>no</b> benefit from the Ohio EITC	95%	82%	90%

Source: ITEP. Covers Ohio residents only. October, 2018 modeling, Percentages rounded.

<sup>11</sup> U.S. Census Bureau, Supplemental Poverty Measure, 2017, available at <https://www.census.gov/library/publications/2018/demo/p60-265.html>, accessed October 24, 2018.

# Refundability Matters

Refundability is necessary to leverage the poverty-reducing effects of the federal credit. Unlike the federal EITC and almost all other state EITCs, Ohio’s credit is nonrefundable, meaning the credit can only reduce income tax liability; if someone does not have much income tax to pay, their EITC amount will be very small or zero. This is despite the fact that lower-income Ohioans pay other taxes like the sales tax, and on average pay more of their income in overall state and local taxes than the wealthiest do.<sup>12</sup> Making the existing EITC refundable even without eliminating the income cap or increasing the credit amount would meaningfully help working families.

## Making the existing credit refundable would cut taxes for another 34 percent of Ohio’s poorest workers

Refundability alone would mean an additional 34 percent of the poorest Ohioans would see some of their sales tax liability offset by the EITC. Those receiving the credit would receive an additional average of \$241. Moderate-income Ohioans, many living at or near the poverty line, would also see significant benefits. An additional 15 percent would get help and the average tax savings is estimated to increase by \$280. Middle-income Ohioans would not be left out. An additional 5 percent would see help and the average tax savings to claimants would increase by \$357. Table 4 shows these changes.

Table 4			
Refundability Matters: Effect of refundable 10 percent EITC by income class			
	Poorest Ohioans	Low-income Ohioans	Middle-income Ohioans
Income range	Under \$23,000	\$23,000-\$40,000	\$40,000-\$61,000
Average income	\$14,000	\$31,000	\$50,000
Change from share of those getting existing credit	34%	15%	5%
Additional average EITC tax savings after reforms	\$241	\$280	\$357

Source: ITEP. Covers Ohio residents only. October, 2018 modeling. Percentages rounded.

Refundability allows workers to get the full value of their credit regardless of their income tax liability. In refundable states, the amount of the credit that exceeds the taxpayer’s state income tax liability is returned to the claimant as a tax refund. For Tax Year 2017, Ohio filers earning adjusted gross income less than \$10,650 have no state income tax to pay.<sup>13</sup> That increases to \$10,850 for 2018. Other nonrefundable credits, like the joint filing credit and the child and dependent care credit, also may reduce income tax liability for workers. Many of the poorest working families in Ohio have no income tax liability, but they do have skin-in-the-game and relatively more so than their wealthy counterparts. According to the latest analysis from ITEP, the poorest 20 percent of Ohioans are paying 7.0 percent of their income in sales and excise taxes. The top 1 percent are paying only 1 percent in these taxes.<sup>14</sup>

<sup>12</sup> All but four of 26 state credits are refundable: Ohio, Delaware, Oklahoma, and Virginia.

<sup>13</sup> Ohio Department of Taxation, Annual Tax Rates 2017-18, available at <https://bit.ly/2SQIpuS>, accessed October 24, 2018.

<sup>14</sup> ITEP *supra* at note 10.



Regressive taxes make a difference in family budgets. A working mother of three earning \$16,800 who is also the primary caregiver pays an estimated \$417, about 2.5 percent of her annual income in state and local taxes.<sup>15</sup> Because the existing credit is non-refundable and the family’s taxable income was reduced to less than \$10,650 by personal and dependent exemptions, they did not owe state income taxes. Since the family did not earn enough to have state income tax liability to reduce, the existing EITC does nothing to offset her state and local sales tax.

### **A 20 percent, refundable, non-capped EITC would reach more than a third of Ohio’s working poor.**

A 20 percent, refundable, non-capped, EITC would extend the benefits of a refundable credit to more than a third of the poorest Ohioans (35 percent) and increase the amount available to all eligible claimants. The largest tax cut, an additional average savings of \$505, would go to workers on the cusp of poverty, earning between \$23,000 and \$40,000. These changes would cost an estimated \$427.5 million. In light of the \$6 billion in annual cuts Ohio has already enacted since 2005, the expanded EITC is a reasonable expenditure targeted to help kids in working poor families succeed.<sup>16</sup> Families can use that extra cash, along with the larger sum from their federal EITC, to catch up on bills, make repairs, or meet other basic needs. Refundability and the long-phase out of the credit are what supports better outcomes for kids. Table 5 shows how these changes would help Ohioans.

<b>Table 5</b>			
<b>Refundability Matters:</b>			
<b>Effect of refundable, uncapped 20 percent EITC by income class</b>			
	Poorest Ohioans	Low-income Ohioans	Middle-income Ohioans
Income range	Under \$23,000	\$23,000-\$40,000	\$40,000-\$61,000
Average income	\$14,000	\$31,000	\$50,000
Change from share of those getting existing credit	35%	25%	14%
Additional average EITC tax savings after reforms	\$473	\$505	\$351

*Source: ITEP. Covers Ohio residents only, based on October 2018 income. Percentages rounded.*

<sup>15</sup> IRS Sales Tax Deduction Calculator, 2017, calculated for one adult, three children in Columbus, Ohio with full-year residency, available at <https://apps.irs.gov/app/stdc/stdc.html>, accessed July 10, 2018. Hypotheticals based on TY 2017

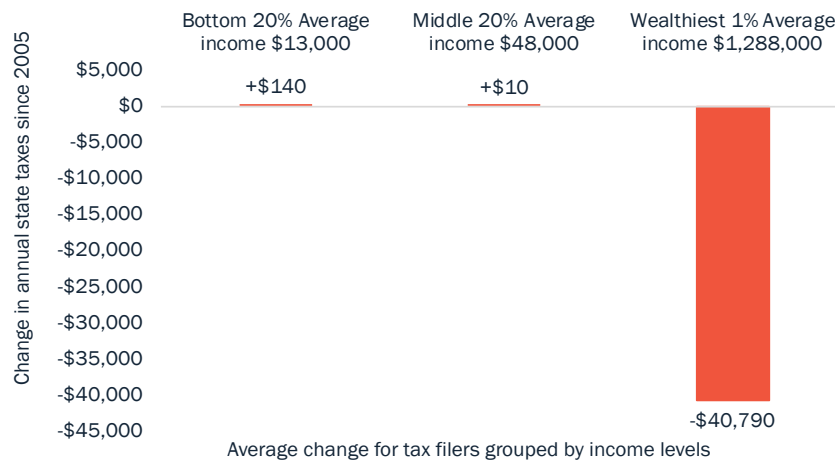
<sup>16</sup> See, Zach Schiller and Wendy Patton, “Overhaul: A Plan to rebalance Ohio’s income tax,” June 2018, available at <https://www.policymattersohio.org/research-policy/quality-ohio/revenue-budget/overhaul-a-plan-to-rebalance-ohios-income-tax>, accessed July 10, 2018.

# Ohio tax policy harms kids

The state’s tax code fails to prioritize kids. Ohio’s tax code doesn’t generate enough revenue to make needed investments in child care, and early childhood education. The poorest Ohioans pay nearly twice the share of their income in state and local taxes as the top 1 percent, who earn more than \$1 million a year, on average.<sup>17</sup>

Changes in Ohio’s taxes since 2005 have disproportionately benefited the highest income earners. ITEP analyzed the major changes in Ohio’s tax system since 2005 for Policy Matters, including changes to the personal income tax, sales tax, cigarette tax, business taxes, and other changes. It found that these major changes have provided the top 1 percent of earners, who make close to half a million dollars a year, with an average cut of \$40,790 a year. That compares to an average *increase* of \$10 for the 20 percent of filers in the middle of the income ladder, who make between \$39,000 and \$59,000, and an average increase of \$140 for those with the lowest 20 percent of incomes (Chart 2), who make less than \$22,000 a year.<sup>18</sup>

**Chart 2**  
Average (cumulative) change in state and local taxes, since 2005 tax overhaul, by income group, Ohio, 2018



Source: Policy Matters, based on data provided by the Institute on Taxation and Economic Policy, April 2018. Data covers Ohio residents only. Income groups based on April 2018 modeling, which differ slightly from the October 2018 modeling.

The Ohio tax shift harms kids in several ways. Not only do these changes mean working parents, often working moms, are paying a disproportionately high share of their income in state and local taxes, but there is less money available for investments to give their kids a healthy start. Ohio schools lost 3,200 social workers, guidance counselors and music, art and gym teachers between 2005 and 2014.<sup>19</sup> Rules for all day kindergarten have been rolled back because districts can’t afford to meet the mandate.<sup>20</sup> Ohio ranks last in state funding of children’s services.<sup>21</sup>

<sup>17</sup> *Id.*

<sup>18</sup> Zach Schiller and Wendy Patton, “Overhaul: A plan to rebalance Ohio’s income tax,” June 2018, available at <https://bit.ly/2Q7MHwu>. Income categories for this earlier study differ slightly from the others in this report because they were based on income data available at that time, which have since been updated.

<sup>19</sup> Jackson, Victoria, “Number of Ohio’s vital school professionals dwindling,” Policy Matters, Dec. 15, 2016 at <https://bit.ly/2suAG9Q>.

<sup>20</sup> Wendy Patton, Budget Bite: All-Day Kindergarten,” March 2017, available at <https://bit.ly/2JIJnFm>, accessed July 16, 2018.

<sup>21</sup> Public Children’s Services Association of Ohio, “PCSAO Factbook 2017,” (p. 6), at <http://www.pcsao.org/factbook>, accessed 10/11/18.

## Refundability can mitigate child support reductions, fight infant mortality

The child support system is changing. A revised support formula will ask low-income custodial parents to do more with less. The same family with three kids who is losing an estimated 2.5 percent of their income to sales taxes is also facing an estimated annual reduction in child support of more than \$3,200, assuming the noncustodial parent also earns \$16,800. A refundable 20 percent EITC would send \$1,126 back to this family; a significant income boost that would help offset income lost to sales taxes and the decline in child support. Research shows that \$1,000 of EITC income reduced rates of low birth weight by 7 percent overall, and by 8.2 percent among African Americans.<sup>22</sup> A fully-reformed EITC would help parents do more with less, and help insulate against infant mortality.

Families living on the cusp of poverty would get significant help from a refundable credit. A family of three with one custodial parent earning \$24,000 is likely seeing their \$161 income tax bill reduced to \$0 by the existing credit.<sup>23</sup> This is cold comfort in light of their \$647 spending in sales tax and the potential loss of more than \$3,500 in child support. A fully fixed refundable 20 percent EITC with no income cap would return more than \$800 to the family, helping pay some bills and fully offsetting their income and sales tax spending. Making the existing 10 percent EITC refundable, and maintaining the cap would still generate \$351 more for this family, making it a little less expensive to be poor.<sup>24</sup>

Working families are under pressure and Ohio's tax shift has done nothing to bring relief. The new child support guidelines will likely help some noncustodial parents have greater stability, but if the new rules do not generate more consistent payments, the loss of income to support kids will have long-term consequences. Making the existing EITC refundable would be a small but meaningful step to let these families keep more of what they earn. Table 6 shows how a 10 and 20 percent refundable credit would help these hypothetical families at varying income levels, assuming both parents have the same income.

<b>Table 6</b>		
<b>Impact of EITC, sales tax, and child support changes on working families</b>		
	Custodial parent, 3 kids	Custodial parent, 3 kids
Earned income	\$16,800	\$24,000
Taxable income	\$7,600	\$14,800
Income tax liability	\$0	\$161
Estimated state and local sales tax	\$417	\$647
Estimated loss of child support	\$3,024	\$3,562
Value of current EITC	\$0	\$161
Estimated refundable portion of a 20% refundable, non- capped EITC	\$1,264	\$863
Estimated refundable portion of a 10%, non-capped refundable EITC	\$632	\$351

*Source: Policy Matters Ohio calculations based on 2017 Tax Year, does not include impact of child and dependents care credit, which would further reduce the current value of the EITC for many parents. EITC estimates from <http://www.eitcoutreach.org/help/>. Sales tax estimates from <https://apps.irs.gov/app/stdc/stdc.html?page=11&cancel>, accessed October 2, 2018.*

<sup>22</sup> Hilary E. Hoynes, Douglas L. Miller, and David Simon, "The EITC: Linking Income to Real Health Outcomes," Center for Poverty Research, UC Davis, available at <https://bit.ly/2JFbVQ7>, accessed October 24, 2018.

<sup>23</sup> Author calculation based on EITC calculator for Tax Year 2017, available at <http://www.eitcoutreach.org/help/>, accessed July 10, 2018 and Ohio TY 2017 tax brackets.

<sup>24</sup> *Id.*

# Conclusion

## Ohio helps other classes of taxpayers with refundable credits

Other classes of Ohio taxpayers get refunds when their credits exceed their tax liability, but the state does not provide a single refundable credit for workers or families. Ohio has refundable tax credits on the books for motion picture producers, historic building rehabilitators, and venture capitalists. In 2016, Ohio taxfilers claimed more than \$175 million in refundable credits.<sup>25</sup> While tax data does not clarify how much these credits reduce tax liability and how much is actually returned to claimants as a refund, it is clear they reduce revenue in the state budget.

Ohio also rewards corporations with refundable credits. In Fiscal Year 2017, more than \$84 million was claimed in refundable tax credits against the Commercial Activity Tax.<sup>26</sup> Nearly one-quarter of those refundable credits (22.9 percent) went to 72 corporate tax filers, all of which had at least \$1 billion in annual gross receipts in Ohio. If all claimants received the amounts reported it pulled more than \$19 million out of the state budget. Those corporations received, on average and assuming they all received what was claimed, a refundable tax cut of more than \$267,000, in addition to other income exclusions and non-refundable tax credits. Manufacturers claimed the highest total, more than \$42 million. Retail and food service corporations, sectors that typically pay poverty-level wages, also received refundable tax credits, totaling \$9.2 million. Ohio is subsidizing the profits of these businesses through the tax code, but the General Assembly is unwilling to extend the same to the families working in these sometimes poorly paid jobs. Ohio offers no refundable tax credits for working class people.

## Ohio needs a working family tax credit

The earnings supplement created by the refundable EITC is the mechanism that reduces the consequences of poverty for children living in working poor households. Nationally, the child and dependent care credit and the EITC, both federal refundable credits, put more than 8 million people above the poverty line in 2016.<sup>27</sup> Adding a refundability component to the Ohio EITC would make the federal credit more effective, particularly helping those families on the cusp of poverty move closer to self-sufficiency.

State policy too often works against kids. Policymakers have an opportunity to increase tax fairness, smooth some benefit cliffs, and offset some of the support being lost to changes in the state's child support program. By increasing the Ohio EITC to 20 percent of the federal credit, eliminating the income cap, and making the credit refundable the state would secure a more stable and bright future for children living in working poor households. The state cannot afford to ignore this tool as we strive to eradicate infant mortality and increase school success.

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<sup>25</sup> Ohio Department of Taxation, 2016 Detailed Individual Income Tax Data, All Returns by Ohio Taxable Income, available at [https://www.tax.ohio.gov/tax\\_analysis/tax\\_data\\_series/individual\\_income/publications\\_tds\\_individual/IT\\_16.aspx](https://www.tax.ohio.gov/tax_analysis/tax_data_series/individual_income/publications_tds_individual/IT_16.aspx), accessed October 31, 2018.

<sup>26</sup> Ohio Department of Taxation CAT summary FY 2017 available at [https://www.tax.ohio.gov/tax\\_analysis/tax\\_data\\_series/cat/publications\\_tds\\_cat/CAT12FY17.aspx](https://www.tax.ohio.gov/tax_analysis/tax_data_series/cat/publications_tds_cat/CAT12FY17.aspx), accessed July 16, 2018.

<sup>27</sup> Hannah Halbert, "Census data: Federal policies helping Ohioans get ahead," September 2017, available at <https://www.policymattersohio.org/press-room/2017/09/12/census-data-federal-policies-helping-ohioans-get-ahead>.

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