

Revenue & Budget

Gov. DeWine's \$2,500-per-child state tax deduction does nothing for those who need it most

Guillermo Bervejillo, PhD

In his recent State of the State address, Gov. DeWine highlighted his proposed \$2,500-per-child state tax deduction. At the time, Policy Matters Ohio and others expressed skepticism about the proposal but did not have sufficient detail to provide further analysis. The newly released bill language makes it clear: **Gov. DeWine's proposal is an expensive, poorly designed policy that will have no impact on families who most need support and will provide only modest benefits to most others.**¹

It might appear at first that the deduction is modeled on the successful expanded federal child tax credit (CTC). The CTC provided a meaningful boost to low-income families in 2021. It made an astounding dent in child poverty rates and provided a lifeline to families struggling to recover from the COVID pandemic.² However, the governor's proposal bears only superficial resemblance to the CTC. The proposal is a tax *exemption* (or deduction) rather than a tax *credit*. The \$2,500 are subtracted from taxpayers' taxable income, rather than directly from what they owe (their liability).³

For example, under this policy a single mother of one making \$40,000 per year would see her taxable income reduced by \$2,500. At a personal income tax rate of 2.765%, that works out to a reduction of her tax liability by \$69: not nearly enough to make a significant impact on that mother's capacity to provide for her child.

Crucially, this means that families who do not pay taxes because they fall into the lowest state income tax bracket — those with taxable incomes of \$26,050 and below — would not see a dime from this policy.⁴ **The governor's proposal does nothing for**

¹ Amending Sec. 5747.025. (B) of the Ohio Revised Code

² Petrik, W. (2022) Increase family security and expand opportunity in Ohio. Policy Matters Ohio. <https://www.policymattersohio.org/research-policy/shared-prosperity-thriving-ohioans/basic-needs-unemployment-insurance/basic-needs/increase-family-security-and-expand-opportunity-in-ohio>

³ For more on this distinction see: <https://www.cbpp.org/research/federal-tax/tax-exemptions-deductions-and-credits>

⁴ It is worth noting that even though the lowest income Ohioans do not pay income taxes, they pay a higher share of their income in total state taxes than wealthy Ohioans do. See: <https://www.policymattersohio.org/research-policy/quality-ohio/revenue-budget/tax-policy/rebalance-the-income-tax-to-build-a-better-ohio-for-everyone>



the families who most need support. It is difficult to say exactly how many families would be left out. According to the U.S. Census American Communities Survey, more than 330,000 Ohio families made less than \$25,000 in 2021: They would gain nothing from this deduction. An additional 190,000 families made between \$25,000 and \$35,000; these families may be left out as well, depending on how many children they have.⁵

Moreover, since Ohio's income tax is a progressive tax — meaning higher-income Ohioans pay a higher income tax rate than those who are paid less — the wealthiest among us would get a greater benefit: Despite not needing the additional help, higher-income households would have their tax liability decreased by up to nearly \$100 per child.

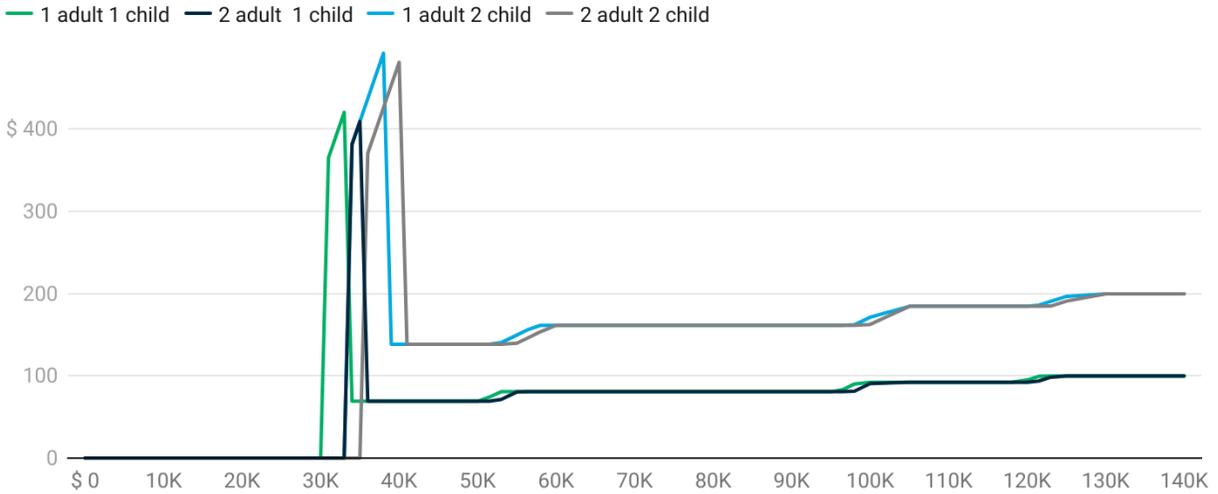
The biggest impact would be felt by a small and somewhat eccentric range of taxpayers that are just over the threshold of tax liability. This anomaly highlights the proposal's poor design. In Ohio, people with taxable incomes of \$26,050 and less pay no income tax, while those with incomes just over that figure pay a flat \$360 plus 2.765% on every dollar over the threshold.⁶ Taxable income is based on gross income adjusted by a series of factors including personal and dependent exemptions. Gov. DeWine's deduction would be factored into that calculation. Therefore, there would be a small range of families who are currently just over the threshold that would see their tax liabilities reduced by over \$360 (see figure below).

⁵ American Community Survey. 2021 Family Income in Ohio 1-year estimates. <https://bit.ly/3iVsyh5>

⁶ Ohio's personal income tax is graduated with respect to taxable income. Ohio Department of Taxation (2022). Instructions for filing original and Amended: Individual Income tax. <https://bit.ly/40XNvIQ>

Gov. DeWine's child deduction

Amount of tax liability decrease by family size



The estimates factor in personal and dependent exemptions but not tax credits such as the earned income tax credit

Chart: Policy Matters Ohio • Created with Datawrapper

Clearly, the small number of families lucky enough to fall in the range of the peaks depicted in the figure above are not a purposefully targeted demographic. They are simply the beneficiaries of an existing kink in the tax code. And while they surely have need of the support, they are not necessarily in more need than the hundreds of thousands of families that are already below the threshold of taxation.

Most families will receive little or no benefit from this deduction, but the price tag to the state adds up to more than \$131 million per year.⁷ It is one more tax expenditure on a list that has ballooned to 154 and accounts for more than \$11 billion of forgone state revenue per year.⁸

Our recent report, [Ohio's Family Budget](#), describes a variety of ways that money could be used to do more for more Ohioans.⁹ Those who want to use the tax code to help families could do much better than the governor's approach. Our [proposal for a Thriving Families Tax Credit](#) would provide families whose annual income is less than \$65,000 with a refundable \$700-per-child tax credit — meaning they would in fact receive that money. And it would include low-income Ohioans who most need it.

⁷ There would be an additional impact on the Local Government Fund.

⁸ Ohio Tax Expenditure report (2024-2025). <https://bit.ly/3HSin9e>

⁹ Petrik, W. et al. (2023) Ohio's family budget. Policy Matters Ohio. policymattersohio.org/familybudget