



Tax & Budget

REFUNDABLE TAX CREDITS FOR WORKING FAMILIES PUT KIDS FIRST

HANNAH HALBERT

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.

EITC reform a boon to working families		
Impact of the EITC, sales tax, and child support changes on working families		
	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%, refundable non-capped EITC	\$632	\$351

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.