

EXECUTIVE SUMMARY

The federal Earned Income Tax Credit (EITC) provides up to \$4204 to working families who earn less than \$33,000. The credit enjoys wide bipartisan support because of its proven record in helping to reduce poverty, reward work, provide tax relief, stimulate the economy and meet basic expenses for working families. The federal EITC lifted 4.8 million people above the federally defined poverty line in 2001, more than any other government program.

An Ohio EITC, set at 20 percent of the federal benefit amount, would provide an estimated 676,466 working families in Ohio with an average annual credit of \$328 for an estimated total cost to the state of \$222 million dollars for the Tax Year 2004.¹ This is less than one percent of Ohio's projected General Revenue Fund expenditures for Fiscal Year 2004.² As Ohio debates changes to its tax system, many of which would fall more heavily on low and middle-income families, lawmakers should consider incorporating a state EITC into the changes. This would ensure that relief is provided to low- and moderate-income working families.

Other EITC-related findings include:

- ◆ Seventeen states offer EITCs based on the federal credit. In the last few legislative sessions, nine states and the District of Columbia enacted new EITCs or expanded existing state EITCs.
- ◆ A state EITC would help Ohio families escape poverty or meet basic expenses. In 2001, about one in six Ohio children lived below the official poverty line. A state EITC would lift more than 8000 of these children above that threshold.
- ◆ A state EITC would make Ohio's state and local tax distribution less regressive. In 2002, the poorest fifth of Ohio families (earning less than \$15,000 annually) paid 10.9 percent of their income in state taxes, while the top one percent of families (earning an average \$660,200) paid just 6.7 percent of their income toward such taxes, after the federal deduction offset.
- ◆ Every Ohio county has working families who claimed the federal EITC in 2000 and would qualify for a state EITC. In the average Ohio county, 12 percent of taxpayers filed for the federal credit. In six counties, more than 20 percent of taxpayers qualify.

In Tax Year 2000, the federal EITC credited 676,466 Ohio taxpayers with an average \$1587 each, for a total of \$1,074 million in federal credits to Ohio families. Only seven states saw more families claim the credit than Ohio. Ohio could build on this commitment by the federal government to Ohio's working families. The result would be less poverty, more ability to work and a more just tax system for employed Ohioans.

¹ Estimates of cost are for 2004, but the estimate for the number of claimants is for 2001 (the most recent data available at <http://www.irs.gov/pub/irs-soi/00in36oh.xls>).

² OH Office of Budget and Management 2004-05 Blue Book, at <http://www.state.oh.us/obm/information/budget/Bluebook0405/tax.asp>