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Shared Prosperity, Thriving Ohioans

## **Increase family security and expand opportunity in Ohio**

The case for a state-level thriving families tax credit

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## Introduction

Parents and caregivers work hard, day in and day out, to give children the best possible start in life. But today, tens of thousands of families struggle to afford the basics, like groceries, rent, utilities and child care. A low-wage job market and rising costs make it more difficult for parents to provide a stable, secure home for their kids. A better future for kids and families is essential to build long-term prosperity in our state.

This report outlines the insecurity and instability that far too many children and families are facing across Ohio. Our analysis shows that when children grow up in constant insecurity and stress, it harms their ability to learn and grow, and limits their long-term opportunities. Children who grow up in poverty are more likely than those from more affluent families to do worse in school, have health problems and get involved with the criminal justice system as adults.

The expanded federal child tax credit (CTC) improved the lives of millions of children and families. We outline how a simple solution — direct payments to families with children — helped families pay for basic household expenses, relieved parents of stress, and made families more stable and secure. But now, because Congress failed to act, families and workers are facing greater hardship because the expanded CTC expired.

We describe how state lawmakers can help families pay for the basics and give more kids in Ohio a chance at a better future by passing a state thriving families tax credit. We outline two thriving families tax credit solutions that would provide meaningful support to roughly 56% of Ohio children — an estimated 1.8 million, including an estimated 285,000 Black children — and put much-needed money in the pockets of an estimated 986,000 Ohio families.

When parents have more financial and emotional stability, kids and families do better. Together, we can prioritize economic security for all families in Ohio, regardless of race or ZIP code.

## Rising costs put a strain on families

Right now, many hard-working parents worry about how they're going to make ends meet. According to census data collected between July 27 and August 8, 2022, an estimated 1.2 million Ohio adults with children in their household had difficulty paying for usual expenses, such as food, rent, car payments, medical expenses and student loans, in the previous week. The same survey estimated over 250,000 Ohio adults with kids reported that they "sometimes" or "often" did not have enough to eat in the last week.<sup>1</sup>

An estimated 463,800 children, or 18.2% of all kids in Ohio, lived in poverty in 2021 as outlined in Figure 1.<sup>2</sup> One reason so many children and families live in poverty is because too many jobs pay poverty-level wages. Four of Ohio's 10 most common jobs, employing nearly 453,000 Ohioans,

don't pay enough for a typical worker to feed a family of three without food assistance.<sup>3</sup> Rising costs, largely unmatched by rising wages, also make it harder for families to get by. According to the U.S. Bureau of Labor Statistics, food prices were up 10.4% and energy costs rose 41.6% between June 2021 and June 2022.<sup>4</sup>

**Figure 1**

## **An estimated 464,000 children, 18.2% of children, lived in poverty in Ohio in 2021**

2021 Child Poverty Rate by State (state rank)



Source: US Census Bureau, American Community Survey, 2021 1-year estimates • Created with Datawrapper

### **The cost of family instability: children's health, well-being, and our future**

Living in constant economic insecurity harms children and limits their opportunities. Research shows that living in poverty compromises children's ability to learn and grow, and harms their income and health as adults.<sup>5</sup> Children in poverty are more likely to do worse in school compared to their peers from more affluent families. According to Dr. Lauren Fasiq Caldwell, children living in poverty experience toxic stress, which can disrupt brain development and impair cognitive, social and emotional development.<sup>6</sup> Children younger than 5, who are in the most crucial period for brain development, have higher poverty rates than kids between the ages of 6 and 17 because parents tend to bring in less income earlier in their careers and they tend to have higher expenses with younger children, such as child care.<sup>7</sup>

Child and family instability costs us all. Kids who grow up in poverty are more likely to have health problems and to get involved with the criminal legal system as adults. In fact, a report from the National Academies of Sciences, Engineering, and Medicine estimates that child poverty "costs the nation between \$800 billion and \$1.1 trillion annually in terms of lost adult productivity, the increased costs of crime, and increased health expenditures."<sup>8</sup>

On the other hand, when families have financial stability and the resources to pay for the basics, children get better grades in school, are healthier, and earn more during their lifetime. Those children are also less likely to go to prison and get involved with the child welfare system.<sup>9</sup> This is why it's common sense for lawmakers to provide direct support to families with low wages. However, Ohio lawmakers haven't prioritized these families.

### **State lawmakers have left out families with low wages**

Since 2005, Ohio lawmakers have shifted money away from working-class families and toward the wealthy and well-connected through tax cuts and special interest giveaways. As a result, the wealthiest 1% of Ohio households are taking home, on average, over \$50,000 every year in tax breaks. Meanwhile, Ohio households making less than \$65,000 are paying more on average in state and local taxes today compared to what they did in 2005.<sup>10</sup> The state lawmakers behind these changes have also limited our ability to build a brighter future, draining around \$8 billion a year from Ohio's budget that could be improving the quality of life of kids and families across the state.

While Ohio lawmakers haven't prioritized direct relief for families making less than \$65,000, Congress passed the American Rescue Plan, a federal COVID-relief bill, which reduced child poverty and provided more security for families with low wages through the temporary expansion of the federal CTC.

### **The impact of the federal expanded CTC on kids and families**

The expanded federal CTC has shown how a simple solution — direct payments to families with children — can help families pay for basic household expenses, take some stress off parents, and make families more stable and secure, all for the good of our future prosperity as a nation.

The expanded federal CTC provided all families making \$150,000 or less with an annual tax credit of \$3,600 per child under 6 and \$3,000 per child between 6 and 17. Most families received the first half of the credit through monthly payments between July and December of 2021 of \$300 a month per child from birth to age 5 and \$250 a month per child age 6-17.<sup>11</sup> Families received the second half of the credit in one lump sum as part of their federal tax return in 2022.

The policy change had an immediate impact on children and families across the nation. In Ohio, more families could pay for groceries, rent, gas, child care and other necessities. Fewer families reported that they didn't have enough to eat.<sup>12</sup> The Brookings Institution found that parents also used the extra cash to reduce credit card debt, learn new professional skills, and 70% said the payments helped them better manage higher prices.<sup>13</sup> Nationally, the monthly CTC payments cut child poverty by roughly 30%, meaning that around 3.7 million children were kept out of poverty.<sup>14</sup> Recent census data show national child poverty fell to a record low of 5.2% in 2021, in large part due to the expanded CTC.<sup>15</sup>

The expanded CTC also helped parents stay in the workforce. According to NPR, parents and caregivers commonly reported that the expanded CTC helped pay for child care or transportation, which made work easier.<sup>16</sup> Census Bureau data show that around a quarter of families with young children used at least part of the tax credit payments on child care.<sup>17</sup>

Two Ohio parents shared the positive impact the expanded CTC had on their families. Sophia Whitehouse, from Central Ohio, was able to start her own business providing mental health services to children. She shared, “The child tax credit has been a tremendous help paying for preschool and child care for my two kids under 5.” Jason Carter and his wife live in Cincinnati. They had a baby girl at the end of July 2020. The monthly payments provided peace of mind for them because it was \$300 that they didn’t have to stress about every month. Mr. Carter said, “It helps us to survive, to plan, and have hope for an improved quality of life in the future.”<sup>18</sup>



*Sophia Whitehouse & family*

**“The child tax credit has been a tremendous help paying for preschool and child care for my two kids under 5.”**



*Jason Carter & family*

**“It helps us to survive, to plan, and have hope for an improved quality of life in the future.”**

But now, families are facing greater hardship because the expanded CTC has expired. This is why we are calling on Congress to expand the CTC before the end of this year. Next year, if Congress fails to act, the credit amount will revert to \$2,000 per child annually, down from \$3,000 to \$3,600 per child. All families will get less support per child, but children growing up in families with very low wages will get even less. Prior to the expansion of the CTC, approximately 27 million children, including an estimated 950,000 children in Ohio, got a partial tax refund or no money back at all, because their families' incomes were too low, including roughly half of all Black and brown children and children from rural communities.<sup>19</sup>

## Let's make sure families can thrive

State lawmakers can rewrite the tax code to boost economic security and stability of children and working-class families. Instead of giving the wealthiest Ohioans more tax giveaways, state lawmakers need to ensure that they contribute to make our state a place where all children and families can thrive.

Currently, Ohio spends \$1 billion each year on a tax break that primarily benefits the rich and people who can hire accountants to take advantage of tax loopholes. In 2013, state lawmakers created the business income tax deduction, also known as the "LLC loophole." The LLC loophole allows people who make money through passthrough entities, such as LLCs, sole proprietorships, S corporations, and partnerships, to avoid paying taxes on their first \$250,000 of income and to pay a low flat tax rate on income above that.<sup>20</sup>

This change to the tax code hasn't improved Ohio's economy. Ohio's share of private sector employees and number of businesses have declined relative to the rest of the nation over the last two decades. Since 2012, the year before the enactment of the LLC loophole, Ohio has created jobs at a slower rate than the national average. Research from Policy Matters Ohio also shows that wealthy individuals disproportionately benefit from the LLC loophole. The top 10% of business income earners in 2020, making at least \$160,000, received an average tax cut of \$8,000 each, adding up to more than \$551 million in tax giveaways.<sup>21</sup>

Instead of spending \$1 billion each year to give the wealthiest Ohioans more tax giveaways, we could send that money directly to families across the state to provide more stability and give more Ohio children opportunities to follow their dreams. The proposals below outline how Ohio lawmakers could use a family-focused tax credit to help families making less than \$85,000 pay for the rising costs of the basics, like groceries, rent, gas, and child care. This would help ensure that our public resources make a critical difference in the lives of children and families.

## Two proposals for a thriving families tax credit

A state thriving families tax credit would help with the cost of raising a family, alleviate some stress from working parents, and set more Ohio children up for success. Policy Matters Ohio analyzed the potential benefits of several state refundable tax credit programs for families.

The two refundable state tax credit solutions presented in this report would benefit children under age 18 in families with income below \$85,000 annually. Families who make \$65,000 or less are eligible for the maximum credit amount, and the credit phases out for tax filers who make between \$65,000 and \$85,000.<sup>22</sup>

**Figure 2**

Two plans support the same number of families at different levels		
Comparison of two Ohio thriving families tax credit proposals		
	Age-differentiated tax refund	Flat tax refund
Maximum annual tax credit amount per child	\$1,000 for children under 6; \$500 for children age 6-17	\$700
Average tax refund per eligible household	\$991	\$1,063
Number of children benefitting*	1,822,262	1,822,262
Number of households benefitting	985,969	985,969
Eligibility by income	Less than \$85,000*	Less than \$85,000*
Eligibility by age	All children under 18	All children under age 18

*Source: Institute on Taxation and Economic Policy, October 2022. \*Tax filers who make \$65,000 or less with a dependent child (or children) are eligible for the maximum annual tax credit amount per child. Tax filers who make over \$65,000 will receive less than the full amount until the credit phases out at \$85,000. Tax filers who make \$85,000 or more would not be eligible for either option based on how those programs are designed. See note 22 for an explanation of the phase-out.*

Both options would:

- **Help families pay for the basics:** Tax refunds go directly to hundreds of thousands of families with children to help them afford basics like groceries, rent, gas, car repairs, health care, or child care.
- **Provide a boost to families who have been left out:** Most of the money goes to Ohio families who make less than \$65,000; these are the households who pay more in taxes each year on average due to changes to the tax code since 2005.<sup>23</sup>
- **Provide more opportunity to families of color and families in Appalachia:** This will provide more support for families with low wages, including Black families and families in Appalachia who have historically been excluded from opportunities.

According to independent analysis performed by the Institute on Taxation and Economic Policy (ITEP), a national nonprofit research institute with a sophisticated model of state and local tax systems, both options would reach an estimated 1.8 million Ohio children (roughly 56% of children in Ohio) and put much-needed money back in the pockets of an estimated 986,000 Ohio families, as outlined in Figure 2. Moreover, both options would benefit an estimated 285,000 Black children and their families.

### **Option 1: Age-differentiated tax refund**

Every child deserves to thrive. But in Ohio, only 41% of all children start kindergarten ready to learn.<sup>24</sup> This is because state lawmakers haven't devoted the necessary resources to support families with young children. Children who start behind in kindergarten often stay behind in school and in the workforce as adults.<sup>25</sup> As noted earlier, young children are more likely to live in poverty and research shows that living in deep poverty compromises children's ability to grow and negatively impacts their income and health as adults. Many women with young children are forced to leave the workforce due to a lack of child care options, which also means less family income.<sup>26</sup> This is why paid family leave and policies that help families afford high-quality child care are so important. It is also why the first option includes a larger credit amount for families with children ages 0-5.

This option provides eligible families with a maximum credit of \$1,000 for each child under age 6 and a maximum credit of \$500 for each child age 6-17. It would provide an average tax refund of \$991 for eligible families. ITEP estimates it would cost a little less than \$1 billion annually.

### **Option 2: Flat tax refund**

No matter the age of kids, parents and caregivers who are paid low wages need financial support to provide security and stability for their children. While parents with school-age children may have fewer or no child care expenses, it still costs a lot to raise a child. The Brookings Institution estimates that households with an annual income between \$50,000 and \$75,000 spend between \$11,400 and \$12,600 annually per child.<sup>27</sup> The second option provides a maximum credit of \$700 per child under age 18 and an average annual tax refund of \$1,063 per eligible family. ITEP estimates that this option would cost \$1.03 billion.

While neither of these options would totally eliminate economic insecurity and childhood poverty in Ohio or cover the full cost to raise a child, both options would put more money back in the pockets of families and increase the economic security of thousands of families across the state.

### **More opportunity for families of color and families in Appalachia**

Race shouldn't have anything to do with how much people are paid, their life expectancy, or whether they are ready to learn when they start kindergarten — but the data show it does. In 2021, white households in Ohio had a median income of \$66,881 and Black households had a median income of \$37,860.<sup>28</sup> Black Ohioans are expected to live four fewer years than white Ohioans.<sup>29</sup>

Black infants are 2.5 times more likely to die before their first birthday than white babies.<sup>30</sup> In Ohio, only 26% of Black children start kindergarten ready to learn.<sup>31</sup> These outcomes are a consequence of people making policy choices: Years of segregation, discrimination and bias excluded Black Ohioans from building wealth and financial security and from education, housing and job opportunities.

Just as race shouldn't determine a child's life opportunities, neither should the place they grow up. Families in Appalachia of all races and backgrounds disproportionately struggle with economic insecurity. Communities in Appalachia and Southeast Ohio have been exploited by extractive industries, leaving many families in the region in poverty. The per capita income for people living in an Appalachian county in Ohio was \$42,200 compared to \$50,199 for the state in 2019.<sup>32</sup> As outlined above, Ohio lawmakers have shifted public resources away from Black communities and from poor and working-class Ohioans, and toward the wealthiest Ohioans. One outcome of this is more hunger and economic insecurity in already struggling regions of the state.<sup>33</sup>

Both thriving families tax credit options will provide more opportunities for families and children who have historically been left out. While most children and families who would benefit from the proposed tax credit are white, Black and brown families will disproportionately benefit, as illustrated in Figure 3.

That's because Black and Hispanic / Latinx<sup>34</sup> households are more likely to be paid low wages than white households. For instance, an estimated 77% (285,000 children) of Black children in Ohio would benefit, compared to 53% (1.37 million children) of white children benefiting, as outlined in Figure 3.

**Figure 3**

<b>Most children would benefit, regardless of race/ethnicity; Black and brown children will disproportionately benefit</b>		
<b>Children benefitting from Ohio thriving families tax credit, by race and ethnicity</b>		
	Number of children in Ohio	Number (and share) of children who would benefit from either option
Total	3,223,542	1,822,262 (56.5%)
White*	2,562,148	1,365,115 (53.3%)
Black or African American*	371,484	284,973 (76.7%)
Asian*	75,179	28,971 (38.5%)
Hispanic / Latinx	150,095	99,399 (66.2%)
Multi-racial*	49,313	32,220 (65.3%)

Source: Institute on Taxation and Economic Policy, October 2022. Percentages based on total estimate. For instance, the Asian percentage is based on an estimate of 75,179, the total estimated Asian child population in the state of Ohio. Data are the same for both proposed options. \*Not Hispanic / Latinx.

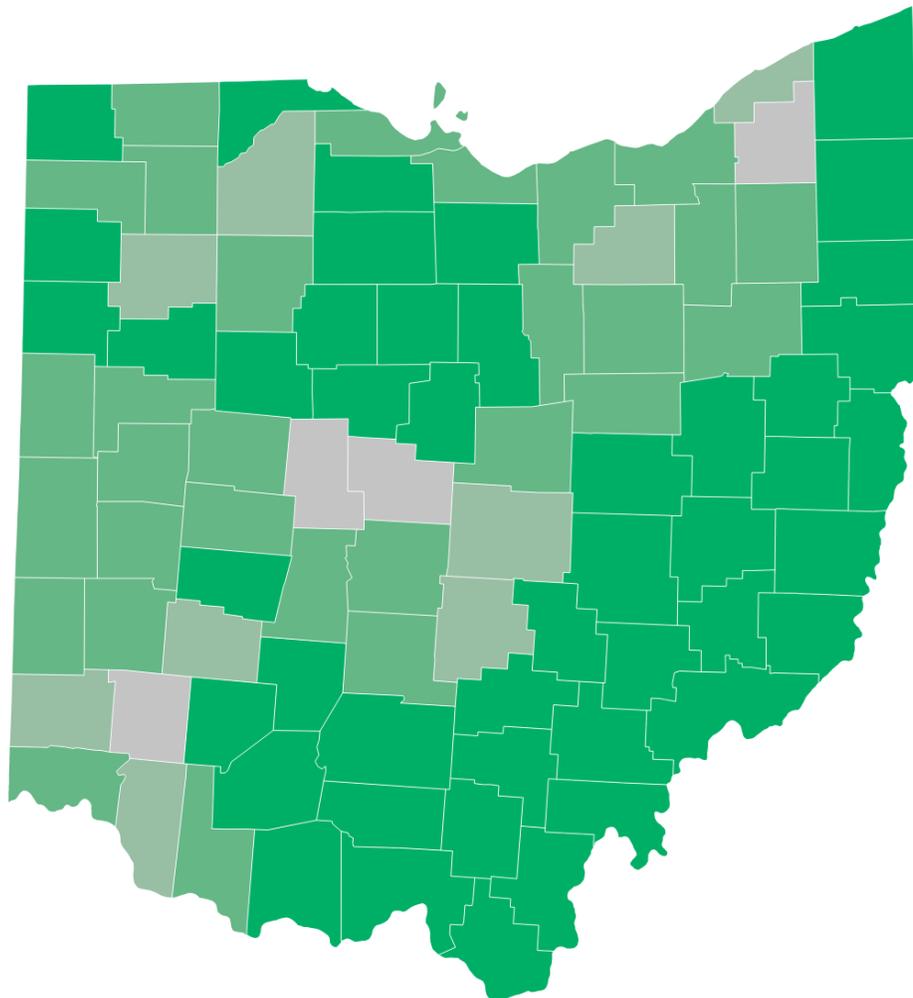
The map below includes the estimated number and percentage of families with children in each county with income at or below \$75,000. We estimate that over 300,000 of families, roughly 60% of families, in the 32 Appalachian counties would be eligible for either of the thriving families tax credit options. More than 55% of families have income at or below \$75,000 in most of Ohio's Appalachian counties. All these families would get a boost from either of the thriving families tax credit options.

**Figure 4**

### Most families in most Appalachian Ohio counties would benefit from either thriving families tax credit option

Estimated share and number of eligible families, by county

< 35.0%
  35.0%–45.0%
  45.0%–55.0%
  ≥ 55.0%



Source: US Census Bureau, S1901: Income in the past 12 months (in 2020 inflation-adjusted dollars); 2020: ACS 5-Year Estimates. Eligible families have an annual income below \$75,000.

An interactive version of this map, with county-specific data, is available [here](#).

## Ohio has enough for all of us to afford the basics

We have enough resources in Ohio for all of us to have a roof over our heads, get enough to eat, and get the health and child care we need to contribute and thrive — but some policymakers have chosen to direct our public funds elsewhere.

Both state thriving families tax credit options outlined above would cost roughly \$1 billion annually. Lawmakers could pay for either option by repealing the LLC loophole, which hasn't improved the wellbeing of most Ohioans. The thriving families tax credit proposals outlined above, on the other hand, would directly benefit children and families across the state.<sup>35</sup>

# Recommendations & conclusion

The federal CTC expansion shows that we should trust parents to do what's best for their kids. According to the Center on Budget and Policy Priorities, "some 91 percent of families [with incomes less than \$35,000 used] their monthly [CTC] payments for the most basic household expenses — food, clothing, shelter, and utilities — or education."<sup>36</sup>

The thriving families tax credit will boost parents' purchasing power. This will help parents and caregivers with low-wage jobs to keep up their basic spending. Families will be able spend their tax refund on things like car repairs, child care, groceries, or other monthly bills or expenses. When families are able to keep up basic spending, it in turn helps boost their local economy.<sup>37</sup> The thriving families tax credit will ensure families with low wages can continue to pay for the basics.

## Let's support thriving children and families in Ohio

Kids and families do better when we come together and demand that our public policies put more money in parents' pockets. Poverty is a policy choice. Now is the time to make a different choice and build a better future. Together, we can choose economic security and stability for all of us, regardless of what we look like or where we live.

Every child in our state deserves the opportunity to thrive and live with dignity. Governor DeWine recently shared his vision of Ohio as the best place in the nation to have a baby and raise a family. He said, "The research is clear, ensuring babies and their parents are safe and supported during pregnancy and the early years helps children succeed later in life... Supporting Ohio's families now will help children thrive as adults and continue leading our great state to an even brighter future."<sup>38</sup>

We agree. That's why we're calling on the governor and the General Assembly to take action and pass a thriving families tax credit.

# Acknowledgments

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## Notes

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- 11 The temporary federal expanded CTC was fully refundable, which made it so that all eligible families received the full credit amount per child (\$3,600 per child age 0-5 and \$3,000 per child age 6-17), regardless of income or how much they owed in federal taxes.
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22 A “phase-out” prevents a benefits cliff. For instance, if a tax credit had no phase-out and families with income at or below \$65,000 were eligible for the credit, a family with an income of \$65,000 with one 3-year-old would receive a \$1,000 refund while a family that made \$65,001 with one 3-year-old wouldn’t get any money back. A phase-out gradually reduces the benefit as a percentage of additional income. In this proposal, the credit decreases by a ratio of 1/20 for every \$1,000 of income. Thus, a household making \$65,000 with one child who is 4 years-old would receive the full \$1,000 credit. A household making \$66,000 with one 4-year-old child would get \$950, and a household making \$75,000 with one child under 6 would get \$500.

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34 “Hispanic” is the term used in Census surveys; it describes individuals who speak Spanish as their primary language, and largely overlaps with “Latinx” people, who are people from or descended from Latin American communities. “Latinx” is a gender-neutral term preferred by some because unlike “Latino/Latina,” which assumes a gender binary, it includes people of all genders. Other gender-inclusive terms, such as “Latine” are also used. Policy Matters consults with stakeholders on preferred terminology and will continue to do so.

35 Policy Matters Ohio analyzed the potential benefits of several state refundable tax credit programs for families. State lawmakers have a wide variety of options for how to design a thriving families tax credit. The exact parameters of the credit may not match what we present in this report.

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