

RECOVERY ACT TAX CREDITS:

TAX RELIEF FOR WORKING FAMILIES

Executive Summary

Thousands of low- and middle-income working Ohioans received larger tax credits in 2009 due to the American Recovery and Reinvestment Act, according to a new report from Policy Matters Ohio. Changes to the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) programs brought an additional \$400 million into Ohio. The report estimates that more than 640,000 children were directly assisted by the changes to these two programs.

The report comes out as Congress considers a series of tax reforms, including EITC and CTC expansions. The report details the changes including coverage of a third child and benefits up to a higher income level for married families under the EITC. The EITC program is the nation's largest poverty relief program for working families, bringing more than \$2.1 billion into Ohio for some 950,000 families. The maximum EITC credit was raised to \$5,657 from \$4,824 the previous year. Married filers with children received larger credits regardless of their income. The report also discusses changes to the CTC in which the credit, which is worth \$1,000 per child, became more widely available.

Changes to the EITC program increased refunds to 313,000 families, bringing Ohio more than \$121 million. Some 304,000 families benefited from the child tax credit with an average credit of \$833. The report discusses the household budget impact of these credits. Refund dollars are often spent in the community on housing, food, and education.

Policy recommendations include:

1. **Make ARRA expansions to the EITC and CTC permanent.**

The EITC and CTC expansions help working families meet their own and their children's basic needs and move toward financial stability. Returning to pre-ARRA benefit levels would result in a loss of \$497 on average for the bottom 60 percent of working families. This is money that would not be spent by working families in their communities.

2. **Enhance the childless worker portion of the EITC.**

Many childless workers support children through part-time custody, child care payments, alimony, and other indirect arrangements that do not qualify children as dependents on the tax return.

3. **Increase support to free tax preparation programs.**

A broad method for increasing EITC and CTC claims has been a nation-wide effort to provide free or low-cost tax assistance for low-income families through an effort known as the Volunteer Income Tax Assistance (VITA) program. At the state-level, the Ohio Benefit Bank integrates public assistance and free tax preparation. Many eligible families do not claim credits and those who do, often pay high-costs to paid tax preparers. Methods to claim these credits needs improvement.

*Read the full report and learn more about an economy that works for all:
www.policymattersohio.org*

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