



Testimony on a state EITC to the House Finance and Appropriations Committee

David Rothstein

Good afternoon, Chairman Amstutz, Ranking Member Sykes and members of the committee. My name is David Rothstein and I am the project director for asset building at Policy Matters Ohio, a nonprofit, nonpartisan organization with the mission of creating a more prosperous, equitable, sustainable and inclusive Ohio. I am also a research fellow at the New America Foundation. My work centers on household financial stability and consumer protection issues in Ohio. We are also the convener of Ohio CASH, a statewide coalition of organizations focused on improving the financial and economic conditions for low- and moderate-income families and communities in the state. Thank you for the opportunity to testify today regarding House Bill 59 and the creation of a state Earned Income Tax Credit program in Ohio.

Gov. John Kasich's proposals included major changes in Ohio's tax system and other researchers at Policy Matters have previously offered analysis or testimony about the administration's proposals. We have significant concerns about proposed cuts to the income tax that remain in the House budget proposal. These cuts will reduce revenue in the budget, making it harder to fund needed services, and will require low- and moderate-income Ohioans to pay a larger share of their income in taxes. Low-income Ohioans already pay more of their income in state and local taxes than wealthier Ohioans do. We are glad that the House reduced the scope of the income and business-income tax cuts proposed by the governor. While we have analysis of other pieces on our website at www.policymattersohio.org, and will be saying more about the house proposal in the future, today I'll be talking about one narrow piece of tax policy: the Earned Income Tax Credit.

Ohio should adopt a state EITC, as 25 states (including the District of Columbia) have done. This would be good policy at any time, but especially when legislators are considering raising taxes on those least able to pay. An EITC not only helps create a more fair tax structure, it provides a boost to local economies, as EITC dollars are often spent and saved locally. This multiplier effect creates local and state tax revenue based on goods and services that are sold.

The federal EITC (on which the state credit is based) does more than any other program to keep working families out of poverty. Created under President Ford in 1975 and supported by every presidential administration since, the EITC is lauded for its direct impact in keeping families with children above the poverty line, making work pay, and sending federal dollars to local communities. The EITC is delivered through the tax code and those who qualify receive it in the form of a tax refund.

To qualify for the EITC (for tax year 2012), workers must have earned income of \$50,270 or less. The credit is worth substantially more for families with children. For low-income workers without children, the maximum credit is very small, \$475, and they are no longer eligible when income is above \$20,000. The EITC encourages families making at or near minimum wage to work more hours since the credit has a long, gradual phase-out range rather than a complete cut-off.

In Ohio, the federal EITC helped more than 950,000 families (20 percent of all tax filers) in tax year 2011 and brought more than \$2 billion to local communities. The average federal EITC refund in Ohio was \$2,238, often equaling two or three months of pay for a low-wage working family. Research shows that families use their refunds for basic needs, to pay for child-care expenses and to save. Because eligibility changes based on earnings and hours, many families claim the EITC for only a year or two during tough economic times when wages, hours, or jobs are cut.

A state EITC program would not be large in comparison with the estimated state General Revenue Fund (GRF) spending of \$27.7 billion in Fiscal Year 2013. A modest Ohio EITC program, set at 10 percent of the federal credit, would provide the average recipient \$224 and would cost the state \$184 million per year. A slightly more generous credit, set at 20 percent of the federal credit as in many states, would cost about \$367 million per year and would provide families with an average of \$446 annually. At 10 percent, this would equate to roughly 1 percent of GRF spending but would also benefit 800,000 working families (20 percent of taxpayers). It is easy to implement: as simple as adding a line on the tax form.

Most state EITC programs are refundable, ranging from 3.5 percent to 50 percent of the federal credit. States with EITC programs have a variety of personal income and sales tax structures. They also vary in political structures. Of the 24 states that have implemented state EITC programs, 13 were under Democratic governors, 10 were under Republican governors and one was under an independent governor not affiliated with either major party. States from New Mexico to Nebraska to Indiana continue to find that a state EITC is helpful to workers and the economy. The attached report provides you with an appendix that lists each state and their credit amount.

A state EITC makes sense for a variety of reasons. The policy:

- **Makes the tax system fairer.** Low- and moderate-income working families pay their share of income taxes, pay into Social Security and Medicare, and pay sales and excise taxes. As noted above, low- and moderate-income families pay a larger share of their income than upper-income Ohioans do when all state and local taxes are considered.
- **Rewards work.** The federal and state EITC can only be claimed by people who earn income. People who work full-time should be able to support their families, but often live in or near poverty.
- **Encourages healthy children and strong families.** A recent wave of research finds that families claiming the EITC see better social and economic results. The EITC and similar work-based support programs lead to better school performance for children and stronger earnings over a lifetime of work. Children who benefit from the EITC work more hours and earn more later in life. Many families participate in the program only some years

because other years they get more hours or higher pay – or they lose their job entirely – families are eligible only when working but earning a low income.

- **Generates economic activity.** Families that claim the EITC use the refunds to pay for basic needs like housing, food, transportation and child care. These purchases stimulate local economies.

To demonstrate the impact of a state EITC program, we released a map this morning that details how the federal and a potential state EITC would benefit each of the 88 counties. Some of the findings may surprise you. For instance, Scioto County would receive the largest state EITC average refund at \$478. Rural, urban, and suburban counties would all benefit from this program and this tool allows you to see how many families benefit, the average benefit, and other key statistics around the EITC on a local basis. Visit www.policymattersohio.org to use the interactive map.

Mr. Chairman thank you for allowing me to testify on this legislation. I am happy to answer any questions that you or any of the other members of the committee may have.

*Policy Matters Ohio is a nonprofit, non-partisan research institute
with offices in Cleveland and Columbus.*