

## A Credit that Counts Ohio needs a stronger EITC

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### What is the Ohio EITC?

Last spring Ohio, for the first time, enacted a state Earned Income Tax Credit, a tax credit for working people. The federal government has an EITC, as do 28 states and localities.

Tax credits reduce tax liability. They can be refundable or nonrefundable and that decision has an enormous impact on who benefits. The federal EITC and all but five state EITCs are fully refundable, meaning that if the tax liability is less than the amount of the credit, the balance is returned in the form of a tax refund check. Families use this refund for childcare, transportation, school or work supplies, or just making ends meet. The refund raises family income, reduces child poverty, supports work, and helps offset some of the disparate impact of the overall tax code.

Ohio's EITC is nonrefundable, capped for those with taxable income over \$20,000, and set at just 5 percent of the federal credit. The size of Ohio's EITC puts it among the tiniest – only 4 other state credits are this small or smaller. The total lack of refundability also weakens the credit – only 4 other state credits have this feature. And the cap detracts from the carefully crafted work incentive that nearly all other state and local credits retain intact.

### Who benefits?

We estimate that more than 440,000 Ohioans will be eligible for the new EITC. The average tax cut **for recipients** of the EITC is an estimated \$74. Because Ohio's EITC is not refundable, the vast bulk of low-income Ohioans will not benefit, and those who do on average will receive a modest credit.

The average tax cut for EITC recipients in the lowest 20 percent of earners will only be \$50 and only 6 percent of earners in this lowest income quintile will be able to get the EITC. The highest average tax cut goes to lower middle earners (earning between \$18,000 and \$33,000). For the limited number of filers in this range who actually get the EITC (18 percent of the quintile), the cut will average \$91.

As enacted, the tax changes in the state budget mean that low- and middle-income Ohioans will continue paying a higher share of their income in state and local taxes than wealthy Ohioans. Even with the EITC, the lowest quintile of earners will pay on average \$12 more in taxes, while higher

### A Credit that Counts

Ohio's state Earned Income Tax Credit will help more than 440,000 families at about \$74 each on average. Most of the poorest working Ohioans won't be eligible.

To make our credit count, we should:

- Make it fully refundable: all but five state EITCs are fully refundable, so the lowest-income working families benefit.
- Make it larger: only five state EITCs are at or below the tiny 5 percent level we chose. Raise it to 10 or 20 percent.
- Scrap Ohio's cap: It detracts from the work incentives and keeps it from helping many workers.

A 10 percent refundable EITC with no cap would help more than twice as many families at \$226 each on average. That's a credit that counts.

earners will see more substantial cuts. The top 1 percent will, on average, receive a \$6,083 cut.

<b>Who benefits?</b>				
<b>Average tax changes by quintile of the enacted Ohio EITC, all the recently passed tax changes, and the potential impact of a 10 percent refundable EITC</b>				
	<b>Lowest 20 percent</b>	<b>Second 20 percent</b>	<b>Middle 20 percent</b>	<b>Fourth 20 percent</b>
<b>Income range</b>	<b>Less than \$18,000</b>	<b>\$18,000-\$33,000</b>	<b>\$33,000-\$51,000</b>	<b>\$51,000-\$78,000</b>
<b>Average income</b>	<b>\$11,000</b>	<b>\$25,000</b>	<b>\$42,000</b>	<b>\$63,000</b>
Average tax cut among Ohioans receiving the <b>current</b> state EITC	-\$50	-\$91	-\$61	-\$84
Average total tax impact of <b>recent changes</b> to Ohio tax law, including the EITC	+\$12	-\$5	-\$9	-\$36
Average tax cut of a 10 percent, refundable, non-capped EITC, a credit that counts	<b>-\$190</b>	<b>-\$323</b>	<b>-\$149</b>	<b>-\$287</b>

Source: Institute on Taxation and Economic Policy, July 2013. ITEP analysis covers Ohio residents and is based on 2012 income levels. It includes H.B.59 changes to the Ohio tax code, including the full 10 percent income tax cut rate, means testing of the personal exemption credit the new EITC, and the sales-tax rate increase, among other provisions. See report for a full description. Dollar figures are rounded.

## A Credit that Counts

It is excellent news that Ohio joined 27 other states and localities in putting in place an EITC, but the Ohio EITC is one of the weakest in the nation. The budget bill brought additional tax code changes that negatively impact lower-income Ohioans, who even before the budget bill were paying a larger share of their income on average in state and local taxes than those in all but 10 other states. The state poverty rate remains shockingly high and Ohio has a higher than average percentage of working poor families compared to other states. Working families desperately need a shot at economic mobility and our local economies need a real boost. A stronger, refundable EITC would help with these goals.

To make our credit count, we should:

- Make it refundable: all but 4 other state EITCs are fully refundable, so the lowest-income working families can benefit. As is, only 6 percent of the lowest-income Ohioans will benefit from the credit. The average credit for these recipients is just \$50;
- Make it larger: only four other state EITCs are at or below the tiny 5 percent level we chose. We should raise it to 10 or 20 percent, so the credit can have a real impact on working families;
- Scrap the cap: The Ohio credit cap detracts from the work incentives and keeps it from helping those working their way into the middle class.

A 10 percent refundable EITC with no cap would help more than twice as many families at \$226 each on average. Ohio legislators should work toward this kind of earned income tax credit: a credit that counts.