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Ohio's EITC is a good first step, but needs improvement

Prepared by Kalitha Williams of Policy Matters Ohio
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Founded in 1975, the federal earned income tax credit (EITC) is our nation's most effective antipoverty program. Annually, it lifts over 6 million families out of poverty, half of whom are children. The program has traditionally had bipartisan support and rewards work, because only families with earned income can claim the credit. Last tax season, over 950,000 Ohio families claimed the federal EITC – that's 18 percent of all Ohio tax filings – and received an average refund of about \$2,300. Those credits brought over \$2 billion into our local communities to help working poor families take care of their basic needs.

Despite the benefits, 1 in 5, or 20 percent, of families do not claim the federal credit. We're grateful to the members of Ohio CASH, the state's asset building coalition, including the Ohio Benefit Bank and local United Ways, for providing free tax preparation services all over our state. Last year, free tax-prep organizations filed more than 36,000 tax returns.

It's not too late to take advantage of these services. We encourage anyone seeking assistance filing their taxes to visit the 2014 Free Tax Services Map at www.ohiocash.org, which includes over 160 sites throughout Ohio, or to call 211 to find out where they can get their taxes filed at no charge.

This is the first tax season that Ohioans will be able to claim a state EITC. Gov. Kasich and the legislature did the right thing in creating the state EITC in the last budget cycle. The Mid-Biennium Review tax proposal to expand the credit from 5 percent to 15 percent is a step in the right direction, but more must be done to ensure the credit benefits Ohio's poorest working families.

We have three concerns with Ohio's EITC. First, it's nonrefundable. The federal credit and most state EITCs are refundable, which ensures that working poor families are rewarded for work and the refund helps them meet their basic needs. Poor Ohioans pay more of their income in state and local taxes than more affluent Ohioans do, especially in sales tax, and a refundable state EITC would boost tax fairness. Without refundability, the poorest Ohioans will receive only extremely

modest benefits from a higher EITC. Second, Ohio's EITC has a cap, which is limited to 50 percent for qualifying filers with incomes over \$20,000. Ohio is the only state with a cap on its EITC. Third, our credit is low. Only four other states have a 5 percent credit or lower.

The Institute on Taxation and Economic Policy estimates that the current state credit will only reach about 440,000 Ohio families, which is less than half the households that currently claim the federal EITC. Unfortunately, the credit does not impact most of the poorest working Ohioans and the average tax cut for those who get one is estimated to be only \$74. As we continue to discuss and evaluate state tax policy, we need to ensure fairness in our tax system across all income levels. The MBR proposed income-tax rate cuts, according to the administration, amount to \$909 million in FY2017, more than 22 times the value of the proposed EITC expansion. We propose a higher, refundable EITC with no cap. A 10 percent refundable credit with no cap would help over 855,000 families with an average refund of \$226. Working poor Ohioans deserve a state EITC that is large enough to make a difference in their lives.

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*Policy Matters Ohio is a nonprofit, nonpartisan state policy research institute
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