

## Out-of-step More needed to make Ohio EITC a credit that counts

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### What is the Ohio EITC and how is it changing?

The Earned Income Tax Credit (EITC) is a tax credit for working people. The federal government and 25 states have EITCs. Tax credits reduce tax liability. They can be refundable or nonrefundable and that decision has an enormous influence on who benefits. The federal EITC and all but four state credits are fully refundable, meaning that if tax liability is less than the amount of the credit, the balance is returned in the form of a tax refund check.

Ohio's EITC is very weak. Ohio's credit is nonrefundable. It is capped, so that the maximum EITC that a filer with Ohio Taxable Income greater than \$20,000 may receive is half of the tax that is due after certain exemptions. The Ohio General Assembly recently expanded Ohio's Earned Income Tax Credit, doubling it from 5 to 10 percent of the federal credit. Even with the expansion, the value of the credit is also still below the average value of other state refundable credits (16 percent of the U.S. credit).

### Who benefits from the expansion?

The Ohio EITC expansion only reaches a tiny fraction of Ohio's poorest working families. The expansion will have no impact on the tax bill of an estimated 97 percent of earners making less than \$19,000 a year. Only 3 percent of tax filers in that group – the bottom fifth - will see any tax savings from the expansion. The average additional annual income tax savings is just \$5 for the small number who will benefit. This table shows the share of Ohioans in each income group who will see some benefit from the expansion and the average tax change among EITC recipients.

Ohio EITC expansion does nearly nothing for majority of working poor				
Impact of raising Ohio EITC from 5 to 10 percent of federal EITC, by income quintile				
	Lowest 20 percent	Second 20 percent	Middle 20 percent	Fourth 20 percent
Income range	Less than \$19,000	\$19,000-\$34,000	\$34,000-\$54,000	\$54,000-\$82,000
Average income	\$11,000	\$26,000	\$44,000	\$66,000
Average tax change among Ohioans receiving EITC	-\$5	-\$60	-\$55	-\$31
Share of income group receiving additional tax cut	3%	11%	12%	1%

Source: Institute on Taxation and Economic Policy, June 2014. Covers Ohio residents only and is based on 2013 income. Percentages rounded. The analysis uses 2013 income levels for the model. Model assumes new-tiered exemptions and accelerated income-tax rate cut also in HB 483. The top quintile is not shown because no one in that income range is eligible for the EITC.

### Why does the EITC matter?

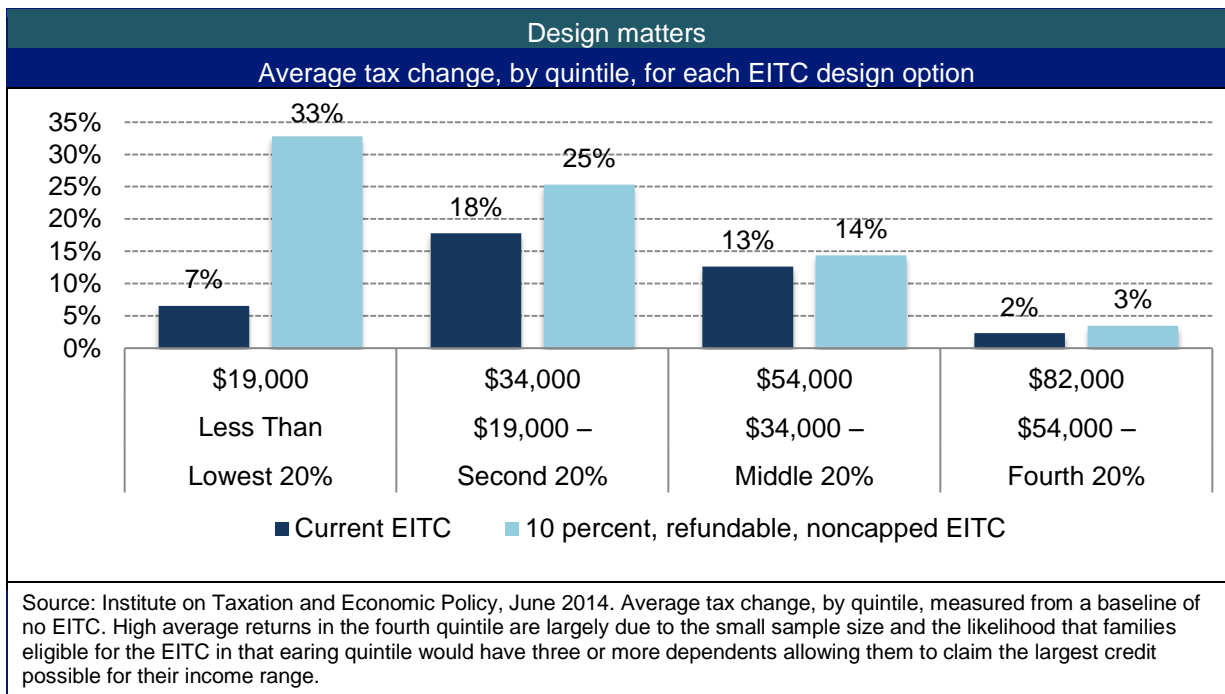
The EITC is intended to do more than just reduce or eliminate income tax liability. The credit is intended to encourage work and insulate low-wage working families from poverty. The credit can

also help make up for the fact that low-income people pay more of their income in state and local taxes than their wealthier counterparts do. Ohio’s workers certainly need a boost. Far too many are working poor. Nearly a quarter (24.7 percent) of all jobs in Ohio are in occupations with median annual pay that won’t keep a family of four above the poverty line. Low-income Ohioans pay more of their income in state and local taxes than affluent Ohioans do. This is not because of the state income tax but because of sales, excise, and property taxes, which are regressive taxes, meaning they fall more heavily on poorer taxpayers.

The EITC can only be effective at addressing these concerns if the credit is refundable. Existing income-tax credits and exemptions already eliminate income tax liability for many. This makes the current nonrefundable EITC a redundant and ineffective credit for most of the lowest-income Ohioans. It simply can’t reach many of the people it was intended to help.

### Design matters

This chart compares how design choices can affect families in each quintile. The figure compares the share of workers receiving the Ohio EITC, by quintile, under different EITC designs: the current 10 percent, non-refundable, capped credit and a 10 percent refundable, non-capped credit. The figure shows that just making the current credit refundable allows a much bigger share of Ohio’s poorest workers to receive the credit.



It’s clear that more reform is needed to make Ohio’s EITC a credit that counts for low-income working Ohioans. While the creation of the Ohio EITC and the recent expansion provide some Ohioans with additional tax savings, the savings is small and the poorest workers in the state receive very little. Policymakers should fix Ohio’s EITC by supporting a 16 percent, refundable credit, and eliminating the cap.