



OHIO
CHILDREN'S
BUDGET
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ISSUE BRIEF

Strengthen the Ohio EITC: The Working Family Tax Credit

The COVID-19 pandemic has plunged our nation and state in a global economic crisis. Since March, over 1.6 million Ohioans have filed for unemployment, up to 689,000 Ohio households are at risk for eviction, and our state foodbanks are being used at record rates. As national and state policy makers work together to develop and implement strategies to help our economy recover, policies that support workers will be more critical than ever to help families re-build their financial security.

The federal Earned Income Tax Credit is the nation's most powerful anti-poverty program. In 2016, it lifted 265,000 Ohioans out of poverty. In 2019, 887,000 Ohioans claimed the credit. The EITC only goes to families with at least one worker that has earned income. The credit rewards work, reduces tax liability, helps financially vulnerable families, and boosts local economies. It helps to offset the impact of Ohio's reliance on sales and property taxes, which weigh more heavily on families of low income.

The EITC helps balance tax fairness and racial inequity. Ohio's tax structure has become more regressive and hurts Black and brown Ohioans. The history of racial discrimination in the workforce, housing, incarceration, and ongoing institutional barriers to opportunity has held down the wages of people of color. Lower income Ohioans pay a larger percentage of their income to taxes than wealthier Ohioans. Black and Latinx Ohioans are much more likely than whites to have lower incomes, thus, they pay a higher portion of their income in taxes. The EITC is targeted to, and, directly benefits, low wage earners. In 2019, the EITC boosted the incomes of 9 million women of color.

Policy

When Ohio's EITC was implemented in 2013, it was one of the weakest in the nation. The credit was small at 5% of the federal EITC, it had an income cap which limited the impact of credit to help families, and it was nonrefundable. Over the past 7 years, state policy makers have strengthened the Ohio EITC by increasing the credit to 30% and removing the income cap. Unfortunately, the credit remains nonrefundable.

Refundability matters. Ohio's credit is nonrefundable and only reduces income tax liability. Many of Ohio's poorest families do not owe income taxes and receive no benefit from the credit. With a refundable EITC, when the credit is larger than the taxes owed, the person receives a refund. Families use the refunds to take care of their basic needs. Of the 29 states, including the District of Columbia and Puerto Rico that have their own EITCs, Ohio is one of just six with a nonrefundable credit. Ohio should add a new option to the state EITC: it should allow families to choose between the existing 30% state EITC, or 10% refundable EITC.



Challenge

The federal Earned Income Tax Credit is our nation’s most powerful poverty reduction tool, but Ohio’s credit only helps a small percentage of the lowest income Ohioans. The Ohio EITC policy must include a refundable option to help more working poor families.

Opportunity

An investment in a stronger EITC will help Ohio’s children succeed. Research has shown the long-term impact of the credit from the cradle to adulthood. Children from families that claim refundable EITCs have higher birth weights, lower infant mortality rates, get better grades in school, have higher college enrollment rates, and earn more during their lifetime.

Support Child Well-Being: Budget Recommendation

Ohio should put children first. Ohio spends tens of millions of dollars offering refundable credits to business owners and corporations, but none to working families. Ohio policy makers should strengthen the EITC to ensure it helps Ohio’s neediest families. Only a small percentage of Ohio’s neediest families are aided by the current state EITC. Recent changes to the state EITC added just \$6 to the average value of the credit to Ohio’s poorest families.

According to modeling done by the Institute for Tax and Economic Policy, adding a 10% refundable state EITC to the current policy would help 756,800 working Ohio families. This change would help 37% of families earning less than \$22,000 a year with an average benefit of \$230. An average benefit of \$324 would go to 19% of families earning \$22,000 - \$40,000. Depending on family size, some in higher income brackets also receive some aid.

Adding a 10 percent refundable option to the current Ohio EITC							
Income Range	Less Than \$22,000	\$22,000 - \$40,000	\$40,000 - \$61,000	\$61,000 - \$98,000	\$98,000 - \$205,000	\$205,000 - \$490,000	\$490,000 Or More
% Receiving Tax Cut	37%	19%	4%	4%	—	—	—
Average Tax Benefit	+230	+324	+349	+406	—	—	—

Source: Policy matters Ohio, based on Institute for Taxation and Economic Policy, September 29, 2020 (2019 dollars)

Strengthening the state EITC will put more money in the pockets of Ohio’s low-income families who work hard every day. Refundability for families means they will be able to cover a portion of their monthly rent, utility bills, and deferred spending on much needed family essentials. A refundable EITC option is a winning policy to help Ohio’s children and families succeed.

This issue brief authored by: Kalitha Williams, Director of Asset Building, Policy Matters Ohio
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