



**OHIO
CHILDREN'S
BUDGET**
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ISSUE BRIEF

EITC: The Working Family Tax Credit

Despite a low unemployment rate, the growth of low-wage jobs has kept poverty rates high. Over 513,000 Ohio children lived in poverty last year, many of them from working families. This has long-term consequences for our children and the state. 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.

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 federal government and 26 states have their own EITCs.

Policy

Ohio's EITC was implemented in 2013. Ohio law-makers made three decisions that weaken the benefit of the credit to working families:

- Refundability matters. Ohio's credit is nonrefundable and only reduces income tax liability. Many of Ohio's low income families do not owe income taxes and receive no benefit from the credit. Refundable EITCs are applied to the amount of tax owed. If the credit is larger than the tax liability, the person receives a refund. Families use the refunds to take care of their basic needs.
- The income cap creates a benefits cliff. Tax filers with taxable incomes over \$20,000 can only claim half of the income tax due as their total EITC amount. For many of these families, the credit will not even, completely, eliminate their tax liability.
- Ohio's EITC is below the national average. There average state EITC is about 27 percent of the federal credit. Ohio's credit is 10 percent.

Challenge

The Earned Income Tax Credit is our nation's most powerful poverty reduction tool, but the state's credit only helps 5percent of the lowest income Ohioans. The policy must be strengthened 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, 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. Today just 5 percent of Ohio’s neediest families are aided by the state EITC, but with the changes recommended here, 40 percent would be helped.

The table below shows that an improved EITC would result in many more families getting needed aid. With the changes recommended here, an additional 35 percent of Ohio’s poorest workers, their families, and their children would be helped compared to today; 25 percent more low-income families and 14 percent middle-income families with many children would benefit from an improved EITC.

Effect of improving the Ohio EITC with refundability, increase to 20% of federal credit and removing the income cap			
	Poorest Ohioans	Low-income Ohioans	Middle-income Ohioans
Income range	Under \$23,000	\$23,000-\$40,000	\$40,000-\$61,000
Average income	\$14,000	\$31,000	\$50,000
Increase in share of tax filers benefitting from the improved EITC	35%	25%	14%
Additional average EITC tax savings after reforms	\$473	\$505	\$351

Reforms in EITC will put more money in the pockets of Ohio’s low- and mid-income Ohioans who work hard every day. It will support their ability to cover their family’s basic needs. The additional tax savings 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.

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