



Greater Cleveland  
for *Greater Kids*

## State Refundable Earned Income Tax Credit – Fact Sheet

### What is the Earned Income Tax Credit?

The Earned Income Tax Credit (EITC) is a tax benefit for working people who earn low incomes. It has several important purposes; to reduce the burden of payroll and other taxes including property and sales tax, to supplement wages, and to make work more attractive than welfare.

### Why is the EITC important?

The EITC is a federally funded, anti-poverty initiative that helps working people maintain their independence from the welfare system. Data from the Current Population Survey indicate that in 1998, the federal EITC lifted 4.8 million people above the federal poverty line – **including 2.6 million children of low-income workers**. The credit augments the wages of workers in low-paying jobs, and thus is an important part of what is often called the “making work pay” strategy. *When the federal Earned Income Tax Credit was expanded in 1986, President Ronald Reagan called it, “...the best anti-poverty, the best job creation, the best pro-family measure to come out of Congress”.*

### Who benefits from the EITC?

*Working families with children.* Children are more likely to be poor than Americans of any other age group. This is the case in Ohio where there are 781,615 children who live with working parents who earned less than \$20,000 in FY 1998.<sup>1</sup> The EITC can help to offset the costs of child-care, clothing, school supplies, and other needs. The federal EITC lifts more children out of poverty than any other federal program.<sup>2</sup>

### Why enact a State refundable EITC?

The state EITC is used by fifteen state governments to augment the incomes of the working poor and to offset the impact of state and local taxes. This latter point is particularly important in Ohio. In 1999, the poorest 20% of families in Ohio had a state tax burden that was greater than that of any tax group.

In Ohio, a family of 4 earning \$16,000 live at 91% of the poverty line. *If they were to receive the federal EITC plus a 20% state EITC, in one year, they are elevated to 131% poverty.* A state EITC would help to close the gap between the annual earnings of a low-income worker and the federal minimum living level.

### How would a State EITC work?

Under a refundable EITC, low-income workers with children who earn up to about \$30,000 depending on family size would receive a tax refund back from the state based on annual earnings. The suggested rate is 20 percent of the federal EITC. This tax credit is calculated after you calculate your deductions and exemptions and determine the tax you owe. A piggyback on the federal credit is both easy for a state to administer and also easy for families claiming the EITC. The state is responsible for the state tax liability and the remainder could be funded by federal TANF funds.

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<sup>1</sup> IRS data for filing period Jan 1, 1998 – Dec 31, 1998 (1040, 1040A, 1040EZ)

<sup>2</sup> Nicholas Johnson, A hand up, How State Earned Income Tax Credits Help Working Families Escape Poverty in 2000: An overview