

Senate Ways & Means Committee

Sen. John Eklund, Chair

Proponent Testimony for Senate Bill 35

March 22, 2017

United Way of Central Ohio is committed to reducing poverty in Franklin County. We do this by connecting individuals and families with high quality and high impact services, improving neighborhoods and ensuring systems and policies are effective. We also combat poverty by supporting programs that help families become financially stable – such as the Earned Income Tax Credit, the nation’s largest anti-poverty program.

The Earned Income Tax Credit is a tax credit for low- to moderate-income working people. It encourages and rewards work and offsets federal payroll and income taxes. Twenty-six states, including Ohio, have established a state EITC to supplement the federal credit. Unlike the federal EITC and the vast majority of other state EITCs, Ohio’s tax credit is non-refundable. The Ohio EITC also imposes an income cap. United Way of Central Ohio applauds Senator Michael Skindell for introducing Senate Bill 35 which would make Ohio’s EITC refundable and more accessible to low-wage workers.

Like the federal EITC, state EITCs are available only to families that earn income through work. They help ensure that people who work are able to meet basic needs. Years of stagnant wages followed by a deep recession and continued poor performance at the bottom of the wage scale have left many working families struggling to pay for the basic necessities of life, (e.g., food, shelter, transportation, child care, etc.). Combined with the federal credit, a refundable Ohio EITC would help working families avoid poverty and the hardships it imposes on children.

The working families that receive the EITC pay a substantial share of their income in state and local taxes. The federal EITC was created, in part, to offset the disproportionate impact of payroll taxes on low wage workers. States rely heavily on taxes like sales, excise, and property taxes, which hit lower-income households harder (as a share of income) than wealthier households. Refundable state EITCs help offset the substantial share of income lower-wage taxpayers pay in sales taxes and property taxes. Refundable state EITCs not only reduce the taxes paid by working families, they provide dollars that allow them to keep more of what they earn. A refundable state EITC allows workers to get the full value of their credit regardless of their income tax liability.

United Way of Central Ohio provides fiscal support and staff leadership for Franklin County's free tax preparation coalition, *Tax Time*. Last year, *Tax Time's* 60 sites served 19,482 clients. Franklin County families received millions of dollars in federal EITC refunds that contributed to state and local economies. Most families indicated they used their EITC refunds to pay off bills, purchase reliable transportation, pay for child care, and/or to increase savings.

Poverty is a pressing issue in central Ohio and throughout the state. Many families and individuals work hard and yet are still challenged with meeting basic living expenses. Bringing Ohio's EITC in line with the majority of other state EITCs would mean more money in the pockets of hard-working Ohioans. A refundable state EITC would help keep low-income workers in the labor market and offset some of the disproportionate tax load carried by lower wage workers. United Way of Central Ohio encourages policy makers to support SB 35 and make Ohio's EITC refundable. We also encourage the legislature to remove the \$20,000 income cap and consider a larger credit amount. These three changes will make Ohio's EITC a much more powerful tool for working families.

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