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OHIO LEGISLATIVE SERVICE COMMISSION

Office of Research
and Drafting

Legislative Budget
Office

H.B. 59
134th General Assembly

Bill Analysis

Version: As Introduced

Primary Sponsors: Reps. Skindell and Crawley

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SUMMARY

- Modifies the state's earned income tax credit (EITC) by making the credit partially refundable.

DETAILED ANALYSIS

Earned income tax credit modifications

The bill modifies an existing personal income tax credit that is based on a taxpayer's federal EITC. Under current law, the state EITC equals 30% of the taxpayer's federal EITC and is nonrefundable, which means that the amount of the taxpayer's credit may not exceed their tax liability.

The bill makes the state EITC partially refundable, such that if the credit amount exceeds the taxpayer's liability, the taxpayer receives 10% of the federal EITC as a refund from the state. The remaining portion of the state EITC, equal to 20% of the federal EITC, remains nonrefundable.¹ The modified credit applies to taxable years ending on or after the modification's effective date.²

Federal earned income tax credit

The federal EITC is a refundable credit computed as a percentage of a person's earnings (including self-employment income). To qualify for the federal credit, the taxpayer's earned income and adjusted gross income must fall below a specified threshold. For 2021, those thresholds are \$15,980 for taxpayers without qualifying children (\$21,920 if married filing jointly), \$42,158 for taxpayers with one qualifying child (\$48,108 if married filing jointly),

¹ R.C. 5747.71 and 5747.98.

² Section 3.

\$47,915 for taxpayers with two qualifying children (\$53,865 if married filing jointly), or \$51,464 for taxpayers with three or more qualifying children (\$57,414 if married filing jointly). For 2021, the maximum federal earned income credit for a person or couple without qualifying children was \$1,502, with one qualifying child \$3,618, with two qualifying children \$5,980, and with three or more qualifying children \$6,728. The credit amount is phased out as a person's income increases. In addition to the earned income limits, the taxpayer must also meet various other eligibility requirements, including limits on investment income (\$10,000 for 2021), minimum and maximum ages if qualifying without children (19 to 65 years), and qualifications for qualifying children.³

HISTORY

Action	Date
Introduced	02-03-21

H0059-I-134/ar

³ 26 United States Code 32; Internal Revenue Service, 2021 EITC Income Limits and Maximum Credit Amounts, available at <http://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/earned-income-tax-credit-income-limits-and-maximum-credit-amounts>. See also Internal Revenue Service, Information Release IR-2021-106, May 11, 2021, available at <https://www.irs.gov/newsroom/irs-offers-overview-of-tax-provisions-in-american-rescue-plan-retroactive-tax-benefits-help-many-people-now-preparing-2020-returns> (describing reforms to the federal EITC recently enacted by the American Rescue Plan Act of 2021).