



Tax & Budget

**Pass a Refundable EITC that supports working Ohioans.  
Testimony on SB 256 “Modify the earned income tax credit; increase the  
minimum wage” before the Senate Ways and Means Committee**

Bailey Williams

Good afternoon, Chair Blessing, Vice-chair Roegner, Ranking Member Smith and members of the Senate Ways and Means committee. My name is Bailey Williams, and I am a tax policy researcher at Policy Matters Ohio, a nonprofit, nonpartisan research organization with the mission of creating a more vibrant, equitable, sustainable, and inclusive Ohio. Thank you for the opportunity to testify.

SB 256 would raise the minimum wage to \$15 per hour for most Ohio workers and expand Ohio’s Earned Income Tax Credit, often abbreviated to EITC. My colleague, Michael Shields will testify (or has testified) to the minimum-wage provisions of the bill. My testimony will focus on the EITC provisions.

The EITC was first created at the federal level in 1975 and made permanent in 1978.<sup>1</sup> The federal EITC is a refundable tax credit targeted towards individuals working low- to moderate paying jobs, particularly workers with children. The value of the credit is determined by several factors, such as whether the taxpayer is married or single, how many qualifying children the taxpayer claims, and the taxpayer’s income, both earned income and income from other sources such as investments. The federal EITC has been expanded several times under both Republican and Democratic Presidencies.<sup>2</sup>

Since its creation, the EITC has been hailed as one of the most effective anti-poverty policies in the United States. According to the Center on Budget and Policy Priorities, an estimated 5.6 million people, including almost 3 million children, were lifted out of poverty specifically because of the federal EITC in 2018.<sup>3</sup> According to data from the Ohio

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<sup>1</sup> Margot L. Crandall-Hollick, Gene Falk, Conor G. Boyle, The Earned Income Tax Credit (EITC): How It Works and Who Receives It. Congressional Research Service. November 14, 2023.

<https://crsreports.congress.gov/product/pdf/R/R43805>

<sup>2</sup> Id.

<sup>3</sup> Policy Basics: The Earned Income Tax Credit. Center on Budget and Policy Priorities. April 29, 2023

<https://www.cbpp.org/research/policy-basics-the-earned-income-tax-credit>

Department of Taxation, over 1 million Ohioans claimed the EITC in tax year 2021.<sup>4</sup> The economic benefit of the EITC extends far past poverty reduction. The EITC has been credited with better educational outcomes, improved odds for a secure retirement, and higher lifetime earnings.<sup>5</sup>

The EITC is only available to residents who hold paid employment.<sup>6</sup> The tax credit helps supplement earnings from work for low- and middle-income Ohioans. The EITC is best paired with a robust minimum wage. By pairing the two measures, the wage floor ensures that the benefit of the EITC goes to the employee, instead of enabling the employer to reduce wages to capture the benefit of the EITC.<sup>7</sup> This is important because – while a \$15 minimum wage gets us closer – it still falls short of the cost of living for most families in every county of Ohio.<sup>8</sup>

Recognizing the value of the federal EITC, a majority of states have followed suit and enacted EITCs for state taxes. Thirty-one states, including Ohio, plus Washington D.C. and Puerto Rico have some form of the EITC, often basing their values on a percentage of the federal EITC.<sup>9</sup> The EITC in 27 of these states, plus D.C. and Puerto Rico, is refundable, meaning a taxpayer gets the full value of the credit through a refund even it exceeds their total income tax liability.<sup>10</sup> These 27 include Blue states like Colorado, Red states like Oklahoma and Nebraska, and our neighbors Michigan and Indiana. The refundability element is what puts money directly into the pockets of workers with low wages. Ohio’s EITC lacks this key element, being one of just four states to offer a nonrefundable EITC. This element limits the EITC’s effectiveness to supplement the incomes of workers to ensure they can make ends meet. Only a small portion of Ohio’s neediest families are aided by the current state EITC.

S.B. 256’s modifications to the EITC would create not one, but two refundable options to the credit. Eligible Ohio taxpayers would receive a refundable state tax credit equal to 9% of their federal EITC. Should the recipient have a dependent under the age of three, their

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<sup>4</sup> Tax Data Series, State Individual Income Tax, Detailed Income Tax Data by Tax Year, Table 23 Tax Year 2021. March 21, 2023. <https://tax.ohio.gov/researcher/tax-data-series>

<sup>5</sup> Policy Basics: The Earned Income Tax Credit. <https://www.cbpp.org/research/policy-basics-the-earned-income-tax-credit> Updated April 28, 2023.

<sup>6</sup> Earned Income and Earned Income Tax Credit (EITC) Tables. Internal Revenue Services. <https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/earned-income-and-earned-income-tax-credit-eitc-tables>

<sup>7</sup> Jesse Rothstein, Ben Zipperer. The EITC and minimum wage work together to reduce poverty and raise incomes. Economic Policy Institute. January 22, 2020. <https://www.epi.org/publication/eitc-and-minimum-wage-work-together/>

<sup>8</sup> MIT Living Wage Calculation for Ohio. <https://livingwage.mit.edu/states/39> Last updated February 14, 2024.

<sup>9</sup> Samantha Waxman, Joanna Lefebvre, Sonali Master. Interactive Map: State Should Continue Enacting and Expanding Child Tax Credits and Earned Income Tax Credits. Center on Budget and Policy Priorities. March 26, 2024. <https://www.cbpp.org/research/state-budget-and-tax/states-should-continue-enacting-and-expanding-child-tax-credits-and>

<sup>10</sup> Id.

state credit would increase to 12% of their federal EITC. This two-tiered approach is modeled on Oregon’s refundable EITC and can help parents afford additional expenses for that come with raising young children. <sup>11</sup> S.B. 256’s expansion of the EITC does not nix the current 30% nonrefundable option. Should an Ohio taxpayer benefit more from a 30% nonrefundable EITC as opposed to a 9% or 12% refundable option, they may choose that option.

The Institute on Taxation and Economic Policy (ITEP), a national nonprofit research institute with a sophisticated model of the state and local tax system, has provided an analysis on who would benefit from S.B. 256’s EITC provision by income distribution. This analysis is included below in table one. According to ITEP’s modeling, S.B. 256 would provide financial support to Ohioans who need it the most. Roughly 60% of the value of a refundable EITC would go to the bottom 20% of Ohio earners, or those making less than \$25,500 annually. Eligible Ohioans in the bottom 20% of earners would receive on average a \$229 annual tax cut from a refundable EITC.

Table 1.

### Detailed Income Distribution of S.B. 256 Refundable EITC

2024 Income	Bottom 20%	Second 20%	Third 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range Start	Below	\$25,500	\$49,000	\$79,200	\$133,900	\$252,400	\$677,000
Income Range End	\$25,500	\$49,000	\$79,100	\$133,900	\$252,400	\$677,000	And Above
Average Income	\$14,400	\$37,000	\$63,700	\$102,700	\$170,800	\$371,500	\$1,580,500
Average Tax Change	-\$102	-\$53	-\$15	-\$1	\$0	\$0	\$0
Share of Resident Tax Cut	59.66%	30.84%	8.60%	0.87%	0.00%	0.00%	0.00%
% with Tax Cut	44.38%	16.11%	4.10%	0.27%	0.00%	0.00%	0.00%
Avg. Tax Cut for Those with Cut	-\$229	-\$326	-\$357	-\$556	\$0	\$0	\$0

Table: Institute on Taxation and Economic Policy - Created with Datawrapper

<sup>11</sup> Tax benefits for families. Oregon Department of Revenue. <https://www.oregon.gov/DOR/programs/individuals/Pages/credits.aspx>

S.B. 256 also takes strides in making our tax system more equitable. Since the first \$26,050 of Ohio Taxable Income is not taxed, Ohioans making less than that amount have not benefited from recent income tax cuts.<sup>12</sup> However, these same Ohioans have been paying sales, property, and excise taxes, regressive forms of taxation which take a disproportionate amount of their income. According to a different ITEP study, the poorest 20% of Ohioans pay 11% of their income in sales and property taxes. The top 1% of Ohioans pay just 2.5% of their income in these taxes. A refundable EITC would help lower-earning Ohio families offset the regressive nature of these taxes and provide for a more equitable tax system.

In summation, S.B. 256's refundable EITC provides compounding benefits for Ohioans. The refundable credit makes our tax system more equitable and will put money directly in the pockets of Ohio workers. This ensures Ohioans can support their families while also boosting local economies through the increased spending.

The EITC provision included in SB 256 is a good policy that would benefit the neediest working Ohioans. To get the most out of this policy, it must be paired with a robust minimum wage. I urge this committee to work towards passing S.B. 256's refundable EITC along with the minimum wage increase proposed by my colleague Michael Shields. Thank you and I'm happy to take any questions.

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<sup>12</sup> Annual Tax Rates. Ohio Department of Taxation. <https://tax.ohio.gov/individual/resources/annual-tax-rates>