

*Benefits and Costs of State  
Refundable Earned Income  
Tax Credits*

*Research Compiled by the Research Committee of  
the Women's Fund of the Greater Cincinnati  
Foundation*



**WOMEN'S FUND**  
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## *Introduction/Summary*

The Earned Income Tax Credit (EITC) is one of the most effective anti-poverty tax policies in the United States. Intended primarily for working parents with low incomes, the federal tax credit offers an opportunity for eligible recipients to receive an annual credit when filing their income taxes. These programs provide stable pathways out of poverty, through fostering financial security and economic mobility. Research shows the EITC is especially beneficial for employed mothers, and that it can reduce racial inequalities.<sup>1-3</sup> Nationally, the average federal EITC credit was \$2,541 in tax year 2022.<sup>4</sup> Recipients spend this money in a variety of ways but primarily fund children's and families' immediate needs (e.g., rent, utility bills, groceries), and build long-term assets like savings and educational credentials.<sup>5-6</sup>

Many states supplement the federal EITC with a state-level EITC, primarily by offering a percentage of the federal EITC as a refundable credit. Ohio is one of just four states that offers a nonrefundable credit, meaning that if a taxpayer owes less than the credit amount, the remainder of the credit is not received by the taxpayer. According to the Institute on Taxation and Economic Policy, a 10% refundable EITC would help an estimated 1.7 million Ohioans, including 670,000 children.<sup>7</sup>

This report outlines the benefits and costs of refundable EITC policies. When examined together, these benefits (i.e., measurable positive outcomes for families, children, and the state) largely outweigh the cost of the program. Research also demonstrates that refundability matters; low, refundable credits have more impact than do high, nonrefundable credits.<sup>8</sup> Taking all the evidence into consideration, the Women's Fund supports Ohio's shift to a refundable EITC.

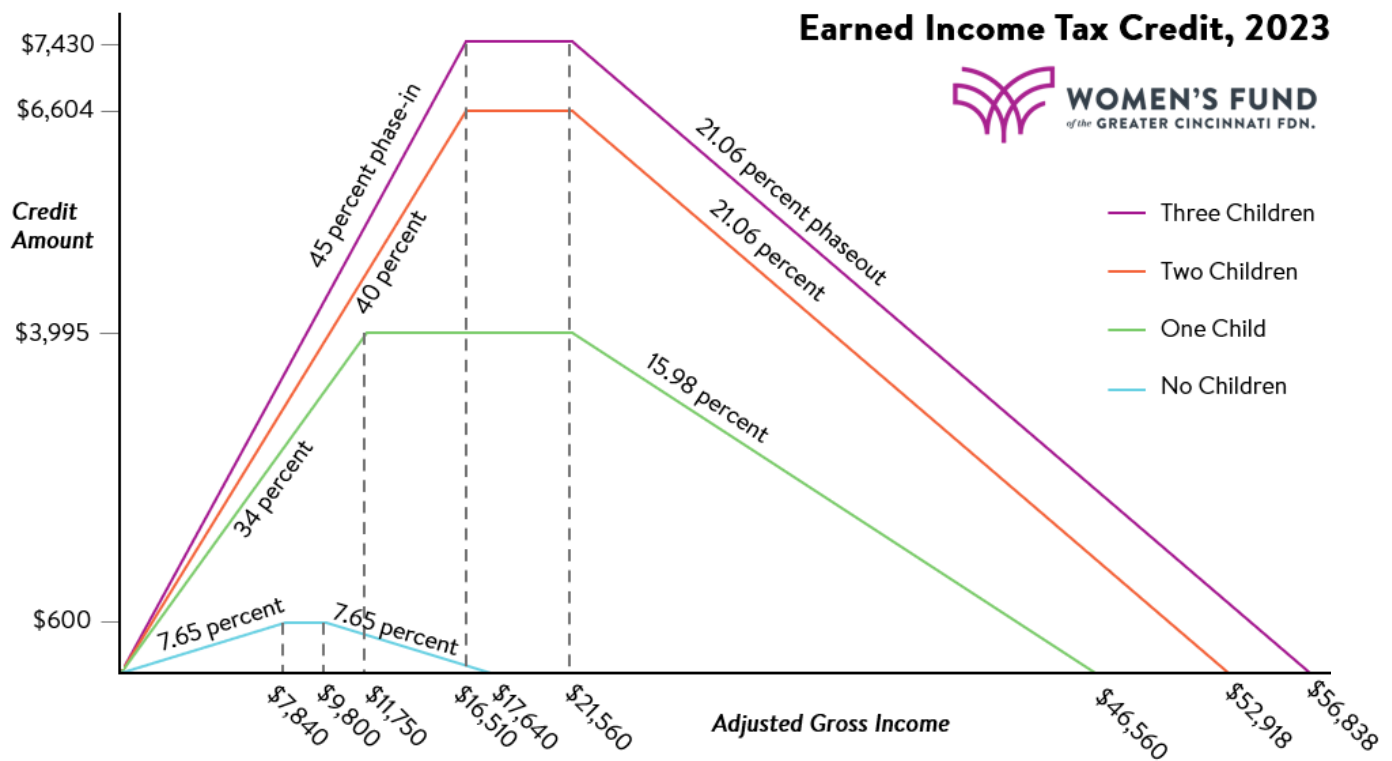
## *What is the EITC?*

The federal Earned Income Tax Credit was established in 1975, providing a tax credit for low-income workers to partially offset rising costs of food, energy, and Social Security payroll taxes. The first EITC bill was signed by President Gerald Ford. While initially intended to be temporary, the credit was made permanent by the Revenue Act of 1978 and expanded significantly by President Ronald Reagan in 1986.<sup>9</sup> Because the EITC incentivizes work as an alternative to welfare, it has been recognized as one of the best anti-poverty measures in the United States.<sup>10</sup>

## What is the EITC?

Small tax credits are available to working adults without children, but larger credits are offered to working parents. The size of the credit depends both on the number of children and income of the tax filer. The EITC program is structured in three periods. During the phase-in period, the credit amount increases as workers earn more money until reaching the maximum credit amount. During the plateau period, the maximum credit amount remains constant while earned income increases. As an individual's earnings continue to increase, the amount of the credit decreases in the phase-out period, although at a slower rate than the initial phase-in period (See Figure 1).

**Figure 1: Earned Income Tax Credit Distributions, 2023**



**Source:** Urban-Brookings Tax Policy Center (2023). Internal Revenue Procedure 2022-44, Internal Revenue Service.

**Notes:** Assuming all income is from earnings, these amounts apply to single or head-of-household filers. For married couples filing jointly, the EITC phase-out starts at an income \$6,560 higher (\$6,570 for those without custodial children).

The federal EITC credit is distributed as a one-time “lump sum” each year after an individual files their federal income tax. Credit amounts greater than the total amount owed in federal tax are refunded to the taxpayer.

## *What is the EITC?*

State EITC programs vary, with different credit values and refundability options. Most states with EITC programs are refundable, with credits offered as a percentage of the federal credit. Of the thirty-one states with EITC programs, only four offer nonrefundable EITC credits (Missouri, Ohio, South Carolina, and Utah).<sup>11</sup> This means that if a taxpayer's EITC credit value exceeds the tax amount owed, the taxpayer cannot claim the remaining portion of the credit.

Ohio introduced its nonrefundable EITC program in 2013, offering eligible taxpayers a credit valued at five percent of the federal EITC credit. A year later, Ohio expanded that credit value to ten percent. In 2019, Ohio again expanded the credit value to thirty percent of the federal credit, although it remains nonrefundable.<sup>12</sup> In 2021, an estimated 877,000 Ohioans received the federal EITC credit, averaging \$2,410 per tax filer.<sup>13</sup> This means that on average, Ohioans receive a state EITC (nonrefundable) credit of \$723. This is equivalent to forty-three percent of a full-time minimum wage earner's monthly salary before taxes.

## *Benefits of EITC*

Many studies have documented the positive outcomes of refundable EITC programs. This credit has been associated with myriad benefits for individuals, children, families, and the state. And while nonrefundable EITC programs can alleviate some of the financial burdens that low-income workers face, the evidence demonstrates that refundable EITC programs have greater benefits for everyone.

### **Benefits for families**

Refundable EITC benefits are widely demonstrated to benefit working families across several dimensions, particularly as they relate to financial wellbeing, physical health, and familial strength. First, because the EITC is eligible only for working tax filers, it creates an incentive to employment. Notably, a \$1,000 increase in maximum federal credit resulted in a 3.6% increase in employment.<sup>14</sup> Over a twelve-year period, research shows that the increases in employment rates for single mothers were particularly significant. During this period, weekly employment increased by six percent and annual employment increased by nearly nine percent.<sup>15</sup> With increased employment, we see measurable increases in household income – particularly for women ages 19-35.<sup>16</sup>

## *Benefits of EITC*

With more individuals working and earning more, it is no surprise that state EITC benefits help families rise above the poverty level.<sup>17</sup> In 2021, the federal EITC lifted 5.3 million people out of poverty, including three million children, and reduced the severity of poverty for another 16.5 million people, including about six million children.<sup>7</sup> Increases in employment and wages, combined with decreases in poverty, also contribute to an increase in economic self-sufficiency – another positive effect of refundable EITC benefits. Unlike some forms of public assistance that are viewed as “band aids,” the refundable EITC has been demonstrated to be a more long-term solution, providing a more permanent pathway out of poverty.<sup>18</sup>

In terms of health benefits for families, refundable EITC programs have been associated with several positive outcomes. With reduced worry regarding finances, individuals report decreases in stress, and other mental health problems.<sup>19</sup> Other studies find that mother and child health scores are also improved among EITC recipients.<sup>20</sup> Finally, maternal smoking also decreased among EITC recipients, creating a healthier environment for all household members.<sup>16</sup> With improvements in parental health, parents are able to better care for children’s needs, benefiting the whole family.

In addition to financial and health benefits of the EITC, there are also social benefits that support families. In a study interviewing 30 low- to moderate-income single women with children in the Midwest, researchers found the EITC acted as a strengthening agent among caregiving networks, particularly among extended family and fictive kin relationships.<sup>21</sup> Going further, state level EITC programs are responsible for decreasing foster-care placements by more than seven percent.<sup>22</sup> Again, because the EITC relieves financial and physical stress, families are able to thrive as evidenced by the increase in families that stay intact.

### **Benefits for children**

EITC programs are one of the most effective anti-poverty programs for children, responsible for lifting countless children out of poverty. When compared to other forms of assistance like Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), and state Child Tax Credit (CTC), EITC is more effective in reducing childhood poverty.<sup>23</sup> Again, refundability matters. States with refundable EITC programs have observed a forty percent greater reduction in child poverty rates compared to states without refundable state EITC benefits.<sup>24</sup>

## *Benefits of EITC*

Reductions in child poverty are not the only benefits of refundable EITC credits. When parents are eligible to receive refundable EITC benefits, there are documented health and social benefits for children of all ages. And policies that encourage healthy childhoods have long-lasting positive outcomes for children that follow them into adulthood.

These impacts begin early. One of the most important factors in predicting a newborn's health is birthweight.<sup>16</sup> Low birthweights resulting from poverty are associated with a range of potentially long-lasting negative consequences affecting children's life chances, such as increased infant mortality, poor childhood health, and lower educational attainment.<sup>16</sup> Recipients of refundable EITC credits are more likely to have healthier pregnancies with longer gestation periods,<sup>7,8</sup> higher birth weights,<sup>14, 16, 25</sup> and decreased infant mortality rates.<sup>25</sup>

Access to a refundable EITC credit is also associated with positive outcomes for youth throughout childhood, including a decrease in child obesity<sup>26</sup> and overall health improvement of older children.<sup>27</sup> Furthermore, there have been demonstrated associations between increases in state refundable EITC benefits and reductions of child maltreatment and neglect, keeping more children physically safe.<sup>25</sup>

In states with refundable state EITC benefits, students have higher test scores<sup>28</sup> and are more likely to complete high school and college.<sup>29-30</sup> Likely due to this increased educational attainment, children in states with refundable EITC benefits also experience a greater likelihood of being employed later in life and earn higher wages when entering the workforce. This evidence points towards the long-term positive outcomes of state EITC programs.<sup>30</sup>

### **Benefits to the state**

Since the EITC was first implemented in 1975, it has been considered a pro-family, pro-employment, and anti-poverty policy. And while many of its outcomes are directly beneficial to individuals, states with refundable EITC programs also benefit from these policies. Some benefits are overarching, such as increased employment and decreased poverty. Others just make fiscal sense for the state, such as its effect on a net reduction in public assistance overall.

Federally, EITC expansions have been shown to increase the labor supply – particularly for women with lower education levels.<sup>28</sup> This increase in labor force participation has been noted since

## *Benefits of EITC*

the federal EITC introduction in 1975 and following expansions in 1986, 1990, and 1993. It is expected that state expansions would also correspond to an increase in labor supply. As stated above, there is already evidence that states with refundable EITC programs see an increase in maternal employment, and a decrease in unemployment rates.<sup>16</sup> With more eligible workers employed, state economies have more opportunity to grow.

Similarly, when individuals are employed, they are less likely to experience poverty. States with a refundable EITC see lower poverty rates and have fewer residents living in severe poverty.<sup>1</sup> With more residents living out of poverty, they are also more likely to be self-sufficient,<sup>28</sup> and less likely to rely on other forms of public assistance. In fact, state EITC programs are associated with decreased reliance on public health insurance and an increase in private health insurance holdings.<sup>10, 31</sup> There is additional evidence demonstrating that reliance on public benefits also decreases as a result of EITC benefits. With a \$1,000 increase in the maximum EITC benefit, the number of families relying on public benefits is estimated to be reduced between 1.5 and 3.1 percent, depending on the family's age of youngest child.<sup>14</sup>

Even more attractive for governments is that federal EITC program expansions nearly pay for themselves because of the reduction in reliance on other public benefits. Research demonstrates that the net cost to the government is just \$0.17 for every \$1 of EITC spending, and is associated with a \$0.69 decrease in other public benefits spending.<sup>32</sup> Taken together, the EITC program is less costly than school lunch and breakfast programs.<sup>32</sup> These positive outcomes are long-lasting as well; a decade after EITC programs are implemented, employment rates remain increased, and poverty and public assistance reliance are decreased.<sup>18</sup>

## *Costs of EITC*

Implementing a refundable state EITC does have an impact on the state budget. However, this program largely “pays for itself” through a reduction in reliance on other public benefits. In 2022, 877,000 individuals claimed the EITC on their 2021 tax return, receiving an average federal credit of \$2,410.<sup>33</sup> If Ohio had a ten percent refundable EITC, the average household would receive \$241. This

## *Costs of EITC*

amounts to sixty percent of a fulltime weekly salary at the 2022 state minimum wage of \$10.10 per hour. In total, the Center on Budget and Policy Priorities estimates that a ten percent refundable EITC would cost Ohio roughly \$229 million.<sup>34</sup> However, because Ohio already has a nonrefundable EITC worth thirty percent of the federal credit, the added cost of making the credit refundable would be lower (around \$206.6 million, according to calculations based on the FY 2024 Tax Expenditure Report).<sup>35</sup>

## *Final Thoughts*

With a nearly 50-year history of and widely recognized as one of the most effective anti-poverty measures in the United States, the Earned Income Tax Credit is a highly effective program that lifts millions of people out of poverty each year. At both the federal and state levels, EITC benefits encourage participation in the workforce, increase household incomes, increase educational attainment, improve health outcomes, and decrease reliance on public assistance.

While Ohio currently has a generous thirty percent nonrefundable EITC, research shows that small refundable credits are better than high nonrefundable credits. Ohio is one of only four states that have a nonrefundable EITC. By adopting a ten percent refundable EITC, Ohio would put needed resources directly into the hands of those who would benefit most. The Women's Fund encourages Ohio to consider a refundable EITC in addition to, or in lieu of, its current nonrefundable EITC. Additionally, we recommend that Ohio dedicate resources to educating Ohioans about EITC eligibility and how to claim this credit.



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## About the Women's Fund

Through leadership, research and policy advocacy, the Women's Fund is designing a community where all women can participate, prosper and reach their full potential.

Our mission is to advance gender and racial equity for women by addressing systemic barriers to upward mobility. We focus on economic mobility, public benefits reform and civic engagement at a systems level.

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