



H.B. 20

126th General Assembly
(As Introduced)

Reps. Miller, Skindell, Allen, Ujvagi, Barrett, Brown, Beatty, Strahorn

BILL SUMMARY

- Grants a refundable earned income tax credit equal to 20% of a taxpayer's federal earned income credit.

CONTENT AND OPERATION

Federal earned income tax credit

(Internal Revenue Code sections 1, 32, and 3507)

Overview of the federal credit

The federal earned income tax credit is available to certain low-income taxpayers. The purpose of the credit is to encourage low-income taxpayers to become or to remain employed. The credit is equal to a percentage of income earned by the taxpayer as wages, tips, net earnings from self-employment, or other compensation. Any wage earner eligible for the federal earned income tax credit may choose to receive the credit all at once when the annual tax return is filed or on an advanced basis as an addition to his or her paycheck.

Eligibility for the federal credit

The federal earned income tax credit is available to any taxpayer who is (or whose spouse is) between 25 and 64 years of age, lives primarily in the United States, and is not claimed as a dependent by any other taxpayer. An enhanced credit is available to the parents of one or more qualifying children. A qualifying child is a child that is under the age of 19 or, if the child is a student, under the age of 24. Permanently and totally disabled children are also considered qualifying children.

Computation of the federal credit

The federal earned income credit is computed as a percentage of a taxpayer's income. An important concept is that of "earned income amount." This is the income level at which a taxpayer reaches the maximum amount of tax credit available. Taxpayers with income levels significantly higher than the earned income amount receive progressively smaller credits as income levels increase. At a certain income level, the credit is completely phased out. The earned income amounts are adjusted each year for inflation.

The credit percentage and the designated earned income levels depend on the number of children a taxpayer has. For taxable years beginning in 2004, the earned income amounts and corresponding credit percentages are as follows:

Number of Children	Earned Income Amount	Percentage
None	\$5,100	7.65%
One	\$7,660	34%
Two or more	\$10,750	40%

So, for example, a taxpayer with one child and earned income of no more than \$7,660 is entitled to an earned income tax credit of \$2,604 (34% of \$7,660). Because \$7,660 is the earned income amount for taxpayers with one child, \$2,604 is the maximum amount of credit available to such taxpayers.

As noted, the federal earned income tax credit is gradually phased out as a taxpayer's income increases. Thus, for example, a person with one child and earned income of \$20,000 would be entitled to a credit of only \$1,648. The same taxpayer with earned income of \$25,000 would receive an even smaller credit. The one-child credit is completely phased out at \$30,338 in income, the no-child credit at \$11,490 and the more-than-one child credit at \$34,458.¹

¹ *These are the phaseout amounts for taxpayers with single filing status. The phaseout amounts are slightly higher for married taxpayers filing jointly.*

Ohio earned income tax credit

(R.C. 5747.71 and 5747.98; Section 3)

The bill grants an earned income tax credit to taxpayers who receive a federal earned income tax credit. The amount of the state credit equals 20% of a taxpayer's federal earned income tax credit. The credit is refundable, which means that if the amount of a taxpayer's credit exceeds the taxpayer's tax liability for the year, the taxpayer is entitled to a refund of the excess. The credit may be claimed for taxable years beginning on or after January 1, 2005.

HISTORY

ACTION	DATE	JOURNAL ENTRY
Introduced	01-25-05	p. 83

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