



H.B. 17

127th General Assembly
(As Introduced)

**Reps. Foley, Skindell, J. McGregor, Brown, Brady, Koziura, Chandler,
D. Stewart**

BILL SUMMARY

- Creates a refundable earned income tax credit that is equal to a percentage 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 2006, the earned income amounts and corresponding credit percentages are as follows:

Number of Children	Earned Income Amount	Percentage
None	\$6,740	7.65%
One	\$8,080	34%
Two or more	\$11,340	40%

So, for example, a taxpayer with one child and earned income of no more than \$8,080 is entitled to an earned income tax credit of \$2,747 (34% of \$8,080). Because \$8,080 is the earned income amount for taxpayers with one child, \$2,747 is the maximum amount of credit available to those taxpayers.

As noted, the federal earned income tax credit is gradually phased out as a taxpayer's income increases. Thus, for example, a taxpayer with one child and earned income of \$20,000 would be entitled to a credit of only \$1,914. The same taxpayer with earned income of \$25,000 would receive an even smaller credit. The one-child credit is completely phased out at \$32,001 in income, the no-child credit at \$12,120 and the more-than-one child credit at \$36,348.¹

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 credit may be claimed for taxable years

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

beginning on or after January 1, 2009. The amount of a taxpayer's state credit equals 5% of the federal earned income tax credit allowed on a federal return filed for taxable years beginning in 2009, and 10% of the federal credit allowed on federal returns filed thereafter. 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 refunded the excess.

HISTORY

ACTION	DATE
Introduced	02-20-07

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