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# OHIO LEGISLATIVE SERVICE COMMISSION

Office of Research  
and Drafting

Legislative Budget  
Office

S.B. 256  
135<sup>th</sup> General Assembly

## Fiscal Note & Local Impact Statement

[Click here for S.B. 256's Bill Analysis](#)

**Version:** As Introduced

**Primary Sponsor:** Sen. Blessing

**Local Impact Statement Procedure Required:** Yes

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### Highlights

- Modifying the state income tax to enable taxpayers to claim a refundable earned income tax credit will reduce annual state revenues between \$173 million and \$231 million. This loss would be shared by the GRF (96.60%), Local Government Fund (LGF, 1.70%), and Public Library Fund (PLF, 1.70%).
- Increases in the minimum wage may increase or decrease state and local income tax receipts, depending on its effect on employment. Other taxes, such as the commercial activity tax and sales and use tax will incur indirect effects of an indeterminate magnitude.

### Detailed Analysis

The bill modifies the Ohio earned income credit (EIC), which is applicable against the personal income tax (PIT). Under current law, the EIC equals 30% of the taxpayer's federal earned income tax credit (EITC) and is nonrefundable, which means that the amount of the taxpayer's credit may not exceed their state tax liability. Beginning with tax year (TY) 2025, the bill gives taxpayers the option of claiming either the existing 30% nonrefundable credit or a refundable credit equal to either (a) 12% of the federal EITC, if the taxpayer has a dependent under the age of three or (b) 9% of the federal EITC, if the taxpayer does not.

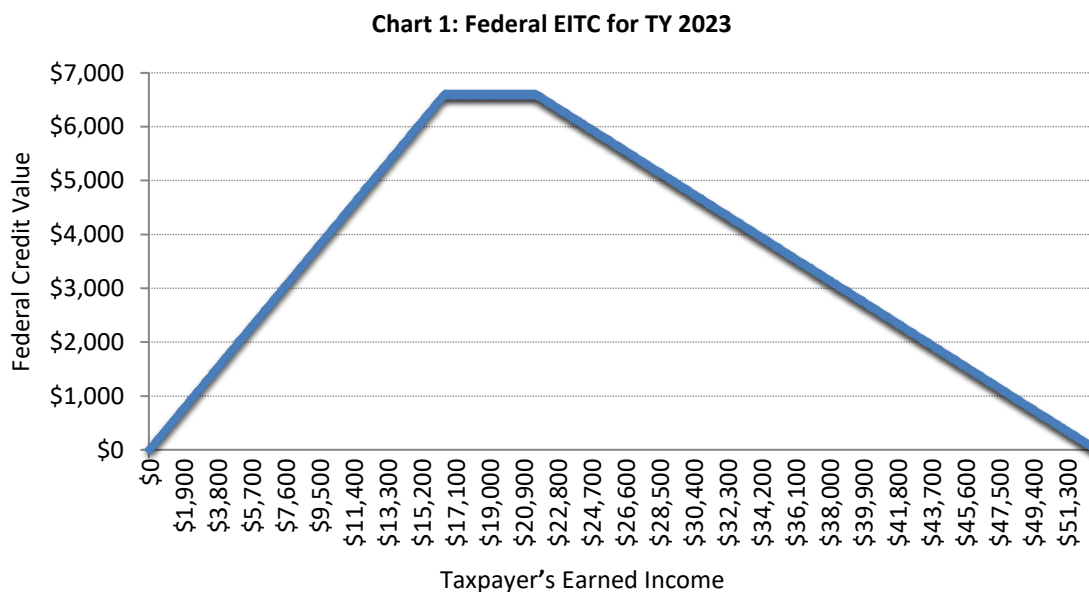
The bill also increases the state minimum wage rate to \$15.00 per hour beginning January 1, 2028. In doing so, it increases the hourly minimum wage to \$12.00 on January 1, 2025, and further authorizes incremental increases of \$1.00 per hour in the ensuing three years.

### Refundable earned income tax credit

The bill adds an option for taxpayers to receive a refundable Ohio EIC equal to 12% of their federal EITC, if the taxpayer claims a dependent under the age of three and 9% otherwise.

Taxpayers may alternatively elect to receive the nonrefundable state EIC equal to 30% of the federal EITC that is currently available to them.<sup>1</sup>

The federal EITC is generally available to low-income workers, and EITC amounts vary depending on the taxpayer's earned income, filing status (e.g., married or single), and number of dependents claimed. Chart 1 depicts the value of the federal EITC for a single taxpayer with two children in TY 2023. The credit increases with earned income until reaching a peak value of \$6,604 when the taxpayer has earned \$16,510 of income. Upon earning \$21,560, the credit is phased out with each additional dollar earned. Although taxpayers with different household characteristics will be subject to different income parameters and resulting EITC amounts, the same general trend observed in Chart 1 is evident across all categories of EITC claimants.

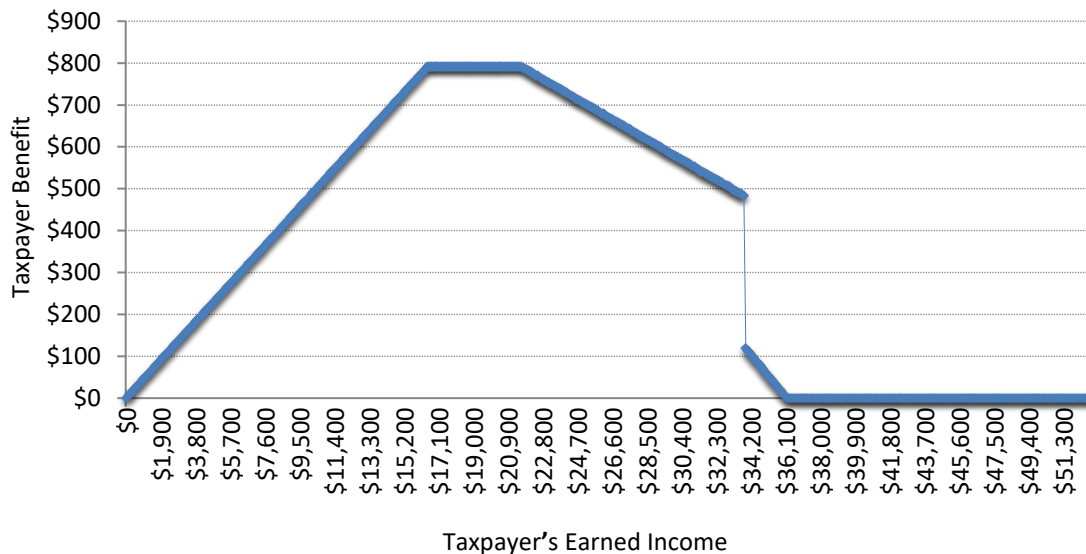


For this same taxpayer, Chart 2 depicts the impact of S.B. 256 by illustrating the tax benefit arising from a refundable EIC equal to 12% of the federal EITC amount in Chart 1.<sup>2</sup> Similar to the federal EITC, the refundable Ohio EIC increases with earned income up to a peak and is then phased out after reaching a threshold of earned income. The large drop in the state tax benefit seen in Chart 2 is not caused by a provision in the bill. Instead, it is a consequence of the taxpayer earning enough income to incur a PIT liability before the Ohio EIC is applied.

<sup>1</sup> R.C. 5747.71.

<sup>2</sup> The federal EITC typically increases the peak and minimum and maximum earned income thresholds every tax year. These parameters are not currently available for 2024. Chart 2 assumes at least one of the dependents is under the age of three years old and applies the personal and dependent exemption and child and dependent care credit that would be claimed.

Chart 2: State Tax Benefit Under S.B. 256



The implementation of a new optional refundable credit is expected to increase PIT refunds issued in FY 2026 when TY 2025 returns are filed. The exact amount will depend on the number of taxpayers eligible to receive such refunds. Workers may also respond to such a change in tax law by altering their hours worked in a year given the incentive to maximize their tax refund. A conservative estimate utilizing Ohio-specific EITC data from the Internal Revenue Service (IRS) suggests that the bill's income tax policy will reduce annual state revenues between \$173 million and \$231 million.<sup>3</sup> This loss would be shared by the GRF (96.60%), Local Government Fund (LGF, 1.70%), and Public Library Fund (PLF, 1.70%).

Note that this estimate does not consider the potential effect of the simultaneous increase in minimum wage. Minimum wage earning taxpayers reporting incomes in the range where the EITC is available to them may earn a greater credit, no change, or a lesser credit depending on how their income change affects their federal EITC (refer to Chart 1).

## Minimum wage law

The bill raises the Ohio minimum wage from \$10.45 an hour to \$12.00 in 2025, \$13.00 in 2026, \$14.00 in 2027, and \$15.00 in 2028. Employers may pay as little as half of these amounts in the respective years to any employee if they can demonstrate that the employee's total compensation (wage plus tips) is at least minimum wage. Exceptions to this state minimum wage exist for employers who earned no more than \$385,000 in gross receipts the previous calendar year and for employees who are under the age of 16 years old. For such employers and

<sup>3</sup> Estimates are based on 2021 IRS data that provide total federal EITC claimed by income range in the state of Ohio. The lower bound assumes all taxpayers are single filers with no dependents. The upper bound assumes all taxpayers are filing jointly with three or more dependents, at least one of which is under the age of three. Dollar amounts were inflated to 2024 using the consumer price index and assuming the remainder of 2024 will have an average rate of inflation equal to that of the last 12 months.

employees, a wage as low as the current federal minimum wage (\$7.25 an hour) may be paid. The number of hourly workers 16 years or older earning \$15.00 or less in Ohio is between 530,000 and 672,000 people.<sup>4</sup> Among Ohio's contiguous states, the current hourly minimum wage ranges from \$7.25 (Indiana, Kentucky, and Pennsylvania) to \$10.33 in Michigan.<sup>5</sup>

In general, increasing the state minimum wage would raise the earnings and household income of most low-wage workers, but doing so would cause other low-wage workers to become jobless, and their household income would fall. The direct impact on PIT receipts is indeterminate. Under continuing law, taxpayers reporting \$26,050 or less in taxable nonbusiness income do not owe any state income tax.

The increase in labor costs to employers will be at least partially passed on through higher goods and service prices, which may be subject to the sales and use tax (SUT). However, the increase in labor costs to employers may also cause some to reduce their output, which lowers the amount of taxable goods and services sold. The change in SUT receipts depends on whether the increase in the sales tax collected per good and service provided is greater or less than the sales tax lost from the decrease in goods and services sold.<sup>6</sup> Likewise, the commercial activity tax, which is applied to gross receipts of employers, may increase or decrease depending on the overall effect on employers' dollar value of sales. Direct estimates of the aforementioned employer responses are not possible to estimate with available data.

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<sup>4</sup> Estimates were derived from the April 2024 Current Population Survey sponsored jointly by the U.S. Census Bureau and the U.S. Bureau of Labor Statistics.

<sup>5</sup> Michigan enacted future increases such that the state minimum wage will be \$12.05 per hour beginning January 1, 2031, according to [summary information](#) compiled by the National Conference of State Legislatures and found on [ncsl.org](https://www.ncsl.org).

<sup>6</sup> Much of the goods and services sold by employers of minimum wage workers may not be taxable under Ohio law. For example, food that is for consumption at home is exempt from sales and use tax.