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Ohioans may see reforms in taxes

Gov. Bob Taft seeks reduction in income taxes, but higher fees for electricity, alcohol, tobacco

By Dennis J. Willard and Doug Oplinger
Beacon Journal staff writers

COLUMBUS - To spur economic development in Ohio, Gov. Bob Taft would cut personal income taxes, eliminate taxes on business inventory and equipment, increase taxes on electric utility bills, alcohol and tobacco, and repeal only half of the "temporary" penny sales tax increase enacted two years ago.

The governor outlined his proposal, which was reminiscent of President Reagan's "trickle-down economics" theory in the 1980s, during his seventh State of the State address Tuesday.

"Last year, I called for tax reform. It is our No. 1 piece of unfinished work. And my No. 1 priority," Taft said.

Taft's proposals were met with mixed reviews from his Republican colleagues, although it is clear that leadership in the House and Senate is more amenable to reforming Ohio's antiquated tax laws this year.

Senate President Bill Harris, R-Ashland, and House Speaker Jon Husted, R-Kettering, acknowledged the governor and legislators face significant challenges to balance the budget, spur the state economy and find ways to attract businesses and entrepreneurs to Ohio.

"We're focused on passing tax reform," Harris said, although he said it is too early to know which parts of the governor's package will become law.

Harris said there is sentiment in the legislature to extend a half-cent sales tax increase beyond its July 1 termination date if it is part of an overall effort to reduce taxes in other areas.

Critics speak out

Democrats denounced the governor's plans for placing the burden of paying for government services on the shoulders of middle class and working families.

House Minority Leader Chris Redfern, D-Catawba Island Township, said the tax cuts help wealthy Ohioans and businesses, while the increases -- on sales, tobacco, alcohol and electric utility bills -- are regressive, which means lower-income earners pay a larger share of their take-home pay for the services.

Redfern said the income tax cuts, for example, mostly would benefit Ohioans with household incomes exceeding six figures, while Ohioans who earn \$20,000 or less a year would get back \$12 a year.

The governor proposed several significant changes in Ohio's tax law, including cutting personal income tax rates across the board by 21 percent while eliminating the tax on anyone earning \$10,000 or less a year.

Policy Matters of Ohio, a Cleveland-based think tank, released a study last week that indicated the state would lose \$2 billion a year in revenue if it adopted reforms similar to Taft's plan.

Taft's tax proposals also would phase out the inventory taxes on new machinery and equipment, while promising to protect local school districts and governments -- the current recipients of this tax revenue -- from the losses for "an extended" but undetermined amount of time.

The governor's plan would replace the corporate franchise tax with a gross receipts tax that Taft said would have a low rate and broad base.

Few states have adopted the gross receipts tax. The Ohio Council of Retail Merchants, a powerful lobbying force in Columbus, opposes the idea. Of the various tax proposals Taft outlined, the gross receipts tax was the only one that legislators sitting in the packed Ohio

House chamber greeted with silence.

“Our goal is not just to create a modern tax system. Our goal is also to reduce the total tax burden on Ohio families and businesses,” Taft said.

Reduction in care

The governor spent a considerable amount of his speech addressing the need to rein in Medicaid expenditures in the budget. Left unchecked, Medicaid will increase by 13 and 9 percent in the next two years -- from \$10.5 billion to \$13 billion.

Taft proposed eliminating care for some adults in poverty and ending vision and dental care for all adults.

“I will need your help because if we fail, we will not slow the growth of state spending. And if we don't slow the growth of state spending, we cannot reduce the tax burden on Ohioans and help our economy grow,” Taft said.

U.S. Rep. Sherrod Brown, D-Lorain, who is considering a run for governor next year, was in Columbus on Tuesday to address President Bush's budget and Taft's state address. He said the Medicaid budget is out of control because needs have grown due to job losses and poor or nonexistent health-care coverage for many working families.

Taft asked legislators again to ask voters to change the Ohio Constitution to allow the state to sell bonds and increase its debt for his Third Frontier economic development program. In November 2003, voters overwhelmingly rejected that idea.

The governor said little about primary and secondary education in a speech given on the day a record number of school districts were going to a February ballot with tax issues.

Taft said his budget would include a new formula for state aid to districts. He would expand school choice programs -- charter schools -- to students trapped in “failing” systems.

It is unclear whether the governor will attempt to expand the voucher system, which currently is confined to Cleveland.

The budget is expected to include less than inflationary increases for basic aid to public classrooms.

Sen. J. Kirk Schuring, R-Jackson Township, said the fact there was a record number of school levies on the special ballot is further evidence the school-funding system is broken.

“I've said for a long time our system is flawed. The system is broke,” he said. “Some (people) want to talk about what was disbursed in the last eight to nine years. The system is flawed and that's what needs to be corrected.”

The senator said he was encouraged by Taft's push for tax reform.

“One of the most onerous taxes is the tangible personal property tax,” Schuring said. “Ohio is one of a handful of states that has such a form of tax. It penalizes businesses when they purchase new machinery and if inventory is high. But if inventory is high, it means sales are slow, so ironically, Ohio taxes them the most when business is slow.”

Taft acknowledged Ohio's economic problems, the loss of talented young people who move away for better job opportunities and the low ranking for citizens with high school and college degrees.

For every 10 students in Ohio, only seven finish high school, five attend college and three complete a four-year degree, the governor noted in his speech.

Taft also proposed capping tuition increases at 6 percent while providing a \$100 million low-interest loan program for needy students. Ohio's universities, where tuition is among the highest in the nation, are bracing for almost flat state funding in the next two years.

Sen. Kimberly Zurz, D-Green, said she was disappointed in the governor's speech because he did not adequately address Ohio's primary, secondary and higher education problems.

“Education is still the No. 1 issue facing this state,” Zurz said.

Dennis J. Willard can be reached at 614-224-1613 or dwillard@thebeaconjournal.com

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