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EDITORIAL

Tax reform needs to help firms, families

By the Dayton Daily News

Ohio should change how it taxes businesses. The rules unquestionably have discouraged companies from making certain investments, and they're a relic from a bygone time.

In so doing, though, legislators also need to scale back how much families pay for state government. They're paying more than their share.

Businesses know better than most that the current system isn't fair, and that some companies and industries are paying too much, while others are skating.

Last year, for instance, only four of Ohio's 10 largest companies paid more than the minimum business tax of $1,000, according to a *Columbus* Dispatch analysis. Each of these firms' sales topped $1.5 billion. Two companies even got refunds.

Of course, companies pay other taxes besides the one levied on profits. But the statistics illustrate the stellar work accountants are doing to save their firms money.

Because legislators have been so generous with tax breaks, business' share of Ohio's state and local tax has dropped from 40 percent in 1976 to 30 percent in 2002. This shift hasn't been debated; in fact, it's hardly known.

And now, as the governor and Republicans propose the biggest tax overhaul in decades, there's hardly any attention being paid to how the cost of government is divided between Ohio's families and its corporations.

Some policy makers think Gov. Bob Taft's plan wouldn't change the balance between what companies and families pay. Others say it would slightly reduce the proportion individuals pay, though the savings would be overwhelmingly concentrated at the highest income levels.

(Taking into account all the governor's proposed changes, Policy Matters, a liberal think tank, says people with incomes of up to $66,000 would pay $89 less per year, while those earning up to $274,000 would get a $1,277 cut.)

What's inarguable is that the Taft plan would not seriously change or reverse a three-decade long trend that's hard to justify.

Yes, many business taxes ultimately are paid by consumers, but some do come out of profits and from shareholders.

Given that businesses expect certain high-quality services from state government — they want workers who've gone to good schools and colleges — they also have an obligation to help pay the bills.

The governor's plan was largely written by business interests, which makes some people skeptical of it. But the authors did a good job of trying to make the rules fair to all industries.

The heart of the plan is to eliminate the taxes paid on profits as well as a property tax levied against equipment and inventory. A tax known as CAT would replace these two taxes. CAT is short for "commercial activity tax." Basically, businesses would pay a tax of 0.26 percent on their sales.

Evading this tax would be hard. Another advantage is that unlike the current tax on equipment, the CAT wouldn't discourage companies from buying new machinery and building new plants. And the low rate has a nice ring.

But one can favor the simplicity and transparency of the CAT idea and still think the overall Taft plan isn't good for Ohio families.

Last year the Tax Foundation, a business-backed research group, ranked Ohio's business climate 29th in the country. Some will say that shows Ohio must do better by its companies. In truth, however, this middling ranking contradicts the assertion that Ohio businesses are being clobbered by taxes.

Ohio can reform and modernize how it taxes businesses. But given how business' burden has been lifted over the years, families — and not just the richest — need real relief in the process.

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