Dayton Daily News
www.daytondailynews.com

Effect of tax cut differs from family to family

What you earn, what you spend it on are factors

By Jim DeBrosse
jdebrosse@DaytonDailyNews.com

The new federal tax-cut bill will create a new tax landscape, as states and local communities scramble to fill the holes left by reduced federal spending.

How much families can expect to save on taxes or whether they save anything at all depends not only on how much money they earn, but how they earn it and, in a broader sense, what they spend their money on.

Those in higher income brackets or who earn a substantial amount of their money from dividends can expect the biggest tax savings. Lower-income wage earners will see the least, especially when the state's new 1 percent sales tax increase is factored in.

Families in all income brackets will be paying more in "hidden" taxes, too, as the state cuts spending to address its budget crisis. For many families in Ohio, that means higher college tuition, fewer subsidized services for the elderly and rising real estate taxes to cover gaps left by the state.

To help make the tax numbers real, we created six fictional families around the Miami Valley, each illustrating a different income level and set of family circumstances, and let the tax experts David Deptula and Kathy Connell at Deloitte & Touche do the calculating.

How the families fared under the new policies may surprise you.

ANGELA SMITH
DAYTON

"Angela Smith" of Dayton, a nurse aide and single mother of three who makes $20,000 a year, will see an extra $93 in her check from Uncle Sam, but she'll end up paying out an extra $127 in state sales taxes. Her net benefit will be a loss of $34 for the year.

Smith is one of the millions of low-wage earners who lost out on the $400 increase in the child tax credit, thanks to a last-minute revision by House and Senate leaders in the tax bill President Bush signed May 28.

Because of the formula for calculating the credit, most working families with incomes from $10,500 to $26,625 will not benefit.

Republican and Democratic leaders in Congress are now wrangling over how those families can be included.

Poorer families also will take a harder hit proportionately on the 1-cent increase in the state sales tax. That's because they spend a greater percentage of their income.

Families with the lowest 20 percent of incomes (less than $15,000) will pay an additional 0.67 percent of their

earnings on sales taxes.

That's nearly five times the percentage (0.14 percent) of income that the wealthiest 1 percent of families making $261,000 or more will spend on sales taxes, according to Policy Matters Ohio, a nonprofit institute that researches issues affecting low- and middle-income Ohioans.

JACK AND TESS DUVALL
OAKWOOD

"Jack and Tess Duvall" of Oakwood, on the other hand, will reap a federal tax savings this year of $11,100, or about 5.6 percent of their income of $200,000. That's largely because Jack Duvall, a retired corporate executive, has an income generated entirely by stock dividends, pension money and capital gains, not by wages.

The new tax bill drops the federal tax rate on dividend income by more than half from 38.6 percent last year to 15 percent this year. On the other hand, the tax rates on wages and salaries were reduced in baby steps of 2 percent to 3 percent for each income bracket, with the highest tax rate declining from 38.6 percent to 35 percent.

The fictional families in our four middle-income categories saw federal tax savings anywhere from $937 to $2,284 but those gains were tempered by higher state sales taxes and hidden taxes.

TIM AND KERRI CONLIN
HUBER HEIGHTS

"Tim and Kerri Conlin" of Huber Heights will get a $937 federal tax break on the $38,000 that Tim earns as a computer technician. But with two small children at home, they'll be making plenty of taxable purchases and paying out at least an extra $173 in state sales taxes.

The Conlins will also see a slight drop in their real estate taxes, from $1,705 to $1,622, since Huber Heights' effective millage rate dipped this year from 58.28 to 55.38 mills. That may not be the case for most Huber Heights families, however. Our figures don't reflect this year's property tax reappraisals in Montgomery and Warren counties.

The net tax effect for the Conlins? They get a break this year of $857, or about 2 percent of their income.

RON AND DEBBIE DALTON
KETTERING

"Ron and Debbie Dalton" of Kettering will see a similar savings in federal taxes $934 on their combined income of $56,000 a year from Ron's job as a factory worker and Debbie's as a school secretary.

But they'll pay out an extra $229 in state sales taxes and see their real estate taxes increase by at least $41, assuming their $111,000 house hasn't increased in its tax valuation.

Net savings for the Daltons, then, is $664, or about 1 percent of their income.

DAVID AND ELLEN NORRIS
CLAYTON

"David and Ellen Norris" of Clayton can count on saving an extra $1,689 in federal taxes this year on their combined income of $84,000 and dividends of $500.

They'll also save $182 on their property taxes, at least for now.

Next year, Northmont's 5.9-mill operating levy will add $237 in real estate taxes on their $129,000 home.

The Norrises he's an accountant, she sells real estate will pay more in other ways, though, including an additional $290 in state sales tax this year.

And starting next year, they'll shell out $467 more in tuition for their son at Ohio State University, which raised its rates in response to the state budget crisis.

If next year's added expenses are factored in, the Norrises will end up with a net savings of $877, or about 1 percent of their income.

RYAN AND TIFFANY CARPENTER
SPRINGBORO

With a joint income of $125,000 and dividends of $1,500, "Ryan and Tiffany Carpenter" of Springboro will pocket an extra $2,284 in federal tax savings this year.

Ryan, an electrical engineer, and Tiffany, an advanced practice nurse, would seem to be sitting pretty.

But besides paying additional sales taxes of $374 and $164 in real estate taxes this year, they face a $2,000 increase in the fees charged by Grandma Carpenter's assisted living center.

Ohio legislators nixed plans this year to extend Medicaid benefits to the elderly in assisted living centers.

Grandma Carpenter, who has a monthly pension of $1,400, would qualify for Medicaid, but only if she goes to a nursing home or gets on the waiting list for the state's in-home care system.

The Carpenters have decided they want Grandma to remain in the assisted living center, where she can have her own apartment and receive the help she needs with housekeeping and medications.

But to do so, they must pay 60 percent of her annual $36,000 assisted living fee.

With the extra sales and real estate taxes and the "hidden tax" of that additional $1,200 in fees for Grandma, the Carpenters reduce their savings to $546, or just one-third of one percent of their income (0.39 percent).

Hidden state taxes may loom even larger in coming years as the state continues to grapple with its deficit.

Once again, Ohio lawmakers face a budget crisis the budget shortfall for the next two years is estimated at more than $1 billion that will force them to cut services or raise additional revenue.

In other words, what goes into your pocket this year may make a fast exit come next year.

[From the Dayton Daily News: 06.15.2003]