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Local News

Study shows downside of increase in sales tax

Penny-on-dollar boost would stress low, middle income

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Columbus Bureau

COLUMBUS | A penny-on-the-dollar temporary state sales tax increase, the leading contender to raise the extra money needed to balance the new two-year budget, would impose heavier financial burdens on low- and middle-income Ohioans than those at the top of the income ladder, a study released Thursday said.

The study's release came as prospects in the Senate for Gov. Bob Taft's proposed overhaul of the state tax system dimmed. Senate Finance Committee Chairman Bill Harris, R-Ashland, said tax reform would have to wait until a new budget is passed and the economy picks up.

House Speaker Larry Householder, R-Glenford, said, however, that he hasn't given up on comprehensive tax reform in this legislative session, which runs through 2004.

The study, prepared by Cleveland-based Policy Matters Ohio, found that, in percentage terms, the sales tax increase would impose nearly five times as great a burden on the 20 percent of taxpayers with the lowest incomes less than \$15,000 as it would on the 1 percent at the top, those earning \$261,000 or more. The group is a nonprofit, nonpartisan research institute.

In percentage terms, the penny increase would increase the share of income going for state and local taxes for the bottom 20 percent of taxpayers by 0.67 percent. The increase for the top 1 percent would be 0.14 percent, the study found.

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Those in the middle 60 percent with incomes from \$15,000 to \$65,000 would face percentage increases at least three times as great as for those in the top 1 percent, the study said.

The House passed a \$48.5 billion two-year state budget in April, which would temporarily increase the sales tax by 1 percent. The increase would end June 30, 2004, if voters on Nov. 4 approve putting video slot machines at Ohio racetracks. The increase would remain until June 30, 2005, if the proposal fails.

The Senate Finance Committee is considering the budget, which must be approved by June 30.

Senate President Doug White, R-Manchester, and Harris of the finance committee said Thursday that the temporary penny sales tax increase appears the most likely tool for attaining a balanced budget.

The sales tax is 5 percent statewide and may be increased locally by counties and transit authorities. The rate in Montgomery County is 6.5 percent.

Zach Schiller, Policy Matters Ohio research director, commended the House for using the sales tax increase to pay for vital state services.

However, we should make sure that those least able to pay are not forced to shoulder the largest burden, he said.

White said that in dollar terms, the affluent clearly would pay more because of the increase than would middle- and low-income Ohioans. The study confirmed that. Those in the lowest 20 percent of taxpayers would pay an additional \$59 in sales taxes while those in the top 1 percent would pay \$915 more, the study said.

Schiller said that instead of increasing the sales tax, the legislature should close corporate tax loopholes and consider a temporary increase in the personal income tax rate for those making more than \$200,000.

Harris said no consideration is being given to a temporary personal income tax increase.

Orest Holubec, Taft's spokesman, declined comment on the study. But overall, he said, Taft's

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tax reform proposal achieves more balance between individuals and businesses than does the House plan.

According to Tax Commissioner Tom Zaino, the burden would be divided roughly in half in Taft's plan while the House plan would fall about two-thirds on individuals, one-third on business.

The Taft plan would lower personal income rates over time, eliminate some corporate franchise tax loopholes and broaden the base of the sales tax to include a wide array of services not now taxed.

The budget the House approved extends the sales tax to a few services, but fewer than Taft proposed. A proposal from Sally Conway Kilbane, R-Rocky River, House Ways and Means Committee chairwoman, would simplify the income tax, replace some business taxes and eliminate many credits, deductions and breaks for businesses and individuals.

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