

Ohio needs taxes that are fair and adequate

Ohio's income tax is based on ability to pay, so the rate goes up as income increases. People of low income pay a lower tax rate than people of higher income because they have less money to pay for the necessities: food, shelter, clothing, transportation to work. By comparison, a flat income tax asks the poor to contribute the same share of income as the wealthy.

Ohio has nine tax brackets, with rates that increase as income goes up. The rate in 2010 on income between \$10,001 and \$15,000 is 2.473%, while income over \$200,001 is taxed at 6.24%.

In 2005, an overhaul of the Ohio tax system brought taxes down by 21 percent over 5 years time. In 2009, the fifth and final year of tax cuts was deferred because of budget problems, but is scheduled to resume again in 2011. Each year of tax cuts drains about \$400 million a year in revenue from the state system, adding to the gaping budget shortfall.

The 2005 state tax overhaul plan reduced taxes for all Ohioans, but the cuts were much larger at the top of the income scale than at the middle. The justification was that companies would move in and bring jobs if taxes were lowered. That hasn't happened.

The 2005 tax system overhaul in Ohio dramatically favored wealthy citizens

Table 1. Average income tax cut when 2005 tax overhaul is fully implemented

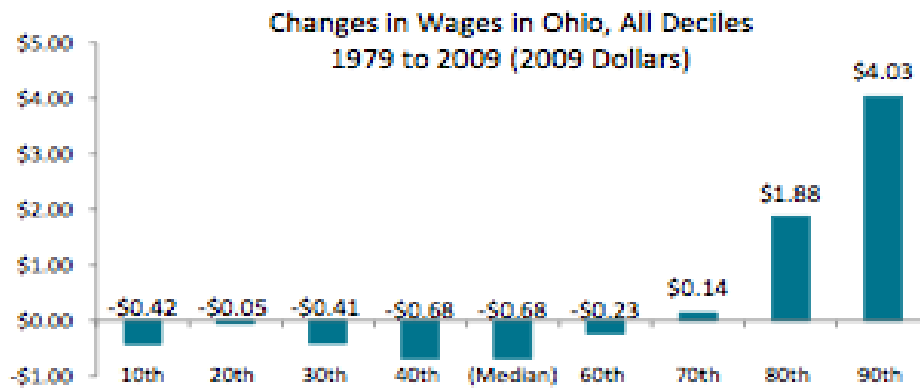
Income category	Average cut
Top 1% (Greater than \$319,000)	\$10,089
Next 4% (\$135-\$319,000)	\$1,710
Next 15% (\$74-135,000)	\$700
Fourth 20% (\$48-\$74,000)	\$329
Third 20% (\$32-48,000)	\$180
Second 20% (\$17 to \$32,000)	\$73
Lowest 20% (<\$17,000)	\$19

Source: Institute on Taxation and Economic Policy

Lowering taxes on top earners was promoted to boost job creation, since nationally, most business owners pay tax on business earnings through their income taxes. On a national basis, however, only 2 to 3 percent of this group of business owners actually make enough income to be impacted at the top rates.

The American economy has changed.

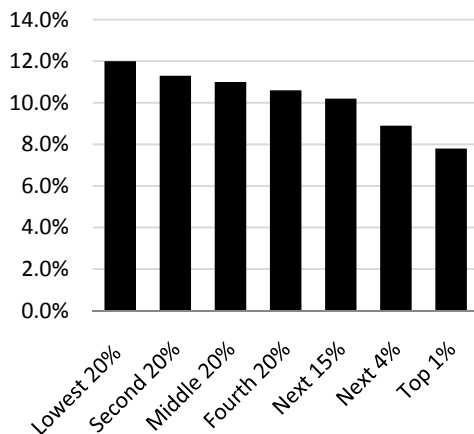
Table 2: The only growth of income has been at the top.



Economic Policy Institute analysis of data from the Bureau of Labor Statistics

State and local tax burden weighs more heavily on those at the low end of the income scale.

Table 3. State and local taxes of non-elderly taxpayers as share of family income in Ohio, by quintile



Source: Institute on Taxation and Economic Policy

In the jobless recovery of the Great Recession of 2007, Ohio families need more services. A balanced approach would include restoring the income tax.

There are solutions to address Ohio's revenue problems. For example:

- *Restore the top income tax rate of 7.5%.*
- *Add an additional bracket, 8.5% on the income over \$500,000.*
- *Permanently defer the last year of the income tax cuts included in the 2005 tax overhaul*