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State and Local Taxes Hit Poor and Middle Class Harder Than the Wealthy

Low- and middle-income Ohio families pay a greater share of their incomes in state and local taxes than the state's most affluent do, according to a study released today.

The top 1 percent of non-elderly Ohio families by income, who earn at least \$261,000 a year, pay 9.7 percent of their income in state and local taxes. The lowest fifth, who make less than \$15,000, pay 11.0 percent. Families in the middle fifth of the income spectrum pay 10.7 percent.

The study also found that, overall, changes in state and local taxes over the past decade have made Ohio's tax system more regressive. Low- and middle-income families have seen bigger increases in such taxes as a share of their incomes than the very wealthiest have. Increases in local sales taxes contributed to that trend.

The national report, "*Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*," was produced by the Institute on Taxation and Economic Policy (ITEP) and released locally by Policy Matters Ohio. The study's primary finding is that by an overwhelming margin, most state and local tax systems take a greater share of income from middle- and low-income families than from the wealthy.

"At a time when cuts in federal aid and declining state tax revenues are forcing state lawmakers to seek increased revenues, it's important to evaluate who currently pays state and local taxes," said Robert S. McIntyre, ITEP's tax policy director and lead author of the study. "Unfortunately, most states require their poor and middle-income taxpayers to pay the most taxes as a share of income—and the ways in which states have managed their budgets during the last decade have made this problem worse."

Regressive Sales Taxes Play a Major Role in Ohio, Other States

Only four states require their best-off citizens to pay as much of their income in taxes as middle-income families have to pay – and Ohio is not one of them. In Ohio and states across the country, the regressive nature of sales taxes, and to a lesser degree property taxes, overwhelms the progressive effect of income taxes. The result is a state and local tax system that places the greatest burden on those least able to pay it.

Sales and excise taxes fall more heavily on less affluent families compared to those who are better off. The poorest fifth of non-elderly Ohio families paid 6.3 percent of their income in sales and excise taxes in 2002, while those in the top 1 percent paid just 1.0 percent.

By contrast, the state's personal income tax is graduated so that those with higher incomes pay at higher rates. As a result, the poorest fifth of non-elderly Ohio families paid 1.7 percent of their income in personal income taxes, compared to 3.9 percent for the middle fifth of families and 6.9 percent for the top 1 percent.

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Lower- and middle-income Ohio families also pay more of their incomes in property taxes than the most affluent families do. More detail on how much different income groups pay and how that has changed is included in tables available at www.policymattersohio.org/who_pays.htm.

Federal Itemized Deduction Offset

Ohio's system is even less fair to lower- and middle-income families when itemized deductions from federal income taxes are taken into account. Taxpayers may deduct state and local personal income and property taxes, but not sales and excise taxes, when they pay their U.S. taxes. Upper-income taxpayers are more likely to itemize and take advantage of these deductions. This in effect passes on the cost of these state and local taxes to the federal government. Taking into account the effect of these deductions, the richest 1 percent of non-elderly Ohio families paid just 6.7 percent of their income in state and local taxes, compared to 10.3 percent for the middle fifth and 10.9 percent for the lowest fifth.

“Ohio legislators should look at ways to make the tax system fairer to low- and middle-income taxpayers,” said Zach Schiller, research director of Policy Matters Ohio. “We should reverse the trend that has meant a growing burden for poor and middle-class families, compared to the wealthy.” Changes in the tax system should be aimed first at bolstering progressive taxes, such as corporate franchise and income taxes. Other states have made their tax systems fairer by adopting earned income tax credits, which provide support to low- and moderate-income working families.

Nationally, the average state and local tax on the best-off one percent of all non-elderly families is 7.3 percent. That compares to 11.4 percent for the poorest fifth of all such non-elderly families and 9.9 percent for families in the middle fifth of the income spectrum.

State and local taxes in Ohio are somewhat more progressive than in most states. The poorest 20 percent of families pays more than the richest 1 percent, but the difference is not as extreme as in the country as a whole.

State and local taxes in the United States rose slightly as a share of income from 1989 to 2002, as states were required to assume additional program responsibilities abdicated by the federal government due to its budget problems. That's not surprising. But because of the way those tax increases were structured, state and local taxes rose most on poor and middle-income families, and least—or not at all—on upper-income families.

In Ohio, state and local taxes rose as a share of income by 2.3 percentage points on the poorest fifth of families and 2.2 percentage points on the middle fifth. They rose only 0.7 percentage points on the top 1 percent.

The full study and details on Ohio are available at www.policymattersohio.org/who_pays.htm. (Username: "sfai," password:"fair2003") or by calling 216-931-9922.

The Institute on Taxation and Economic Policy is a nonprofit, nonpartisan Washington-based research group. Policy Matters Ohio is an Ohio-based nonprofit, nonpartisan research institute that focuses on issues that matter to low- and middle-income Ohioans.

Who Pays? examines the tax systems of all 50 states and the District of Columbia, using the Institute on Taxation & Economic Policy Microsimulation Tax Model. The ITEP Model is similar in methodology and data sources to the elaborate computer models used by the U.S. Treasury and the congressional Joint Committee on Taxation, except that the ITEP Model adds state-by-state estimating capabilities.

The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes. The 2002 figures show the effects of 2002 state and local tax laws, at 2000 income levels (the latest year with complete state-by-state income information), indexed when necessary.