

Income-tax cut would favor affluent Middle-class Ohioans wouldn't get enough for a tank of gas

Zach Schiller

Poor and middle-income Ohioans would get little out of Gov. John Kasich's proposed income-tax cut, while the highest-income Ohioans would see reductions in the thousands of dollars. While House Republicans have sidelined the proposal for now, Rep. Ron Amstutz, chair of the Finance and Appropriations Committee, indicated it will be taken up in the future.¹

According to an analysis by the Institute on Taxation & Economic Policy (ITEP), a Washington, D.C., based research group with a sophisticated model of the tax system, Ohioans in the top 1 percent of the income spectrum earning at least \$321,000 a year on average would receive roughly \$2,300 a year in reduced taxes. The middle fifth of Ohio residents, making between \$32,000 and \$49,000 a year, on average would get about \$42 – not enough for a tank of gasoline at today's prices.

The estimates (see Table 1, next page) are based on the Kasich administration's projection of \$500 million in annual income-tax cuts.² The proposal calls for an increase in severance tax on oil and gas, and use of the new revenue for income-tax reductions instead of restoring services slashed in the current state budget or paying for the increased costs the state and localities will face as a result of drilling for gas in shale rock formations (known as hydraulic fracturing, or "fracking"). The \$500 million is an estimate at peak production years from now, which may or may not come about; in the interim, tax cuts would be smaller. Thus, the \$42 is considerably more than middle-income Ohioans could expect soon.

The analysis shows that the 60 percent of Ohioans with income below \$49,000 a year would receive only a little more than one dollar in every eight of the tax cuts. One out of every four dollars cut in taxes would go to the top 1 percent. Overall, more than 40 percent of the cut would go to the top 5 percent, those Ohioans making more than \$137,000. Ohio has a graduated income tax, so people pay more on higher levels of earnings. Because of that, across-the-board tax cuts give much more money to the wealthiest Ohioans. This reinforces inequality and adds to the unfairness of the state and local

Key findings

- At its peak, Gov. Kasich's proposal provides \$42 a year, on average, for the middle fifth of Ohio's earners
- Ohioans making \$321,000 or more a year – the top 1% – would receive \$2,300
- The top 1% would get a quarter of the total cut, almost double the amount received by the bottom three-fifths of Ohioans

¹"Amstutz Introduces MBR, Outlines Process for Deliberations, Says Severance/Income Tax Provisions Going into Separate Bill," The Hannah Report, March 16, 2012.

² John R. Kasich, Governor of Ohio, "Transforming Ohio for Growth," Income Tax Cut, p. 2, available at <http://www.governor.ohio.gov/Portals/0/pdf/MBR/FINAL%20Income%20Tax.pdf>

tax system, which is weighted in favor of upper-income taxpayers when all state and local taxes are taken into account.³

| 2011 Income Group | Lowest 20% | Second 20% | Middle 20% | Fourth 20% | Next 15% | Next 4% | Top 1% |
|--|--------------------|---------------------|---------------------|---------------------|----------------------|-----------------------|-------------------|
| Income range | Less than \$18,000 | \$18,000 – \$32,000 | \$32,000 – \$49,000 | \$49,000 – \$75,000 | \$75,000 – \$137,000 | \$137,000 – \$321,000 | \$321,000 or more |
| Average income in group | \$11,000 | \$24,000 | \$40,000 | \$61,000 | \$97,000 | \$195,000 | \$854,000 |
| Tax cut as percentage of income | -0.0% | -0.1% | -0.1% | -0.1% | -0.2% | -0.2% | -0.3% |
| Average tax change in dollars | -\$2 | -\$17 | -\$42 | -\$76 | -\$162 | -\$405 | -\$2,313 |
| Share of tax change | 0% | 4% | 9% | 17% | 27% | 18% | 25% |

Source: Institute on Taxation and Economic Policy Microsimulation Tax Model, March 2012. Ohio residents, 2011 income levels. The dollar share and tax cut as a percentage of income of the bottom fifth are less than half of one percent, so once they are rounded, they appear as 0%.

About \$60 million of the cut would be offset by higher federal taxes that Ohioans will have to pay because they no longer will be able to deduct as much from their U.S. taxes. Thus, the overall net size of the tax cut will be more like \$440 million.

“Gov. Kasich said every Ohioan should benefit from the wealth in shale oil and gas, not just out-of-state shareholders in oil and gas companies. Yet he proposes to give the money raised from a higher severance tax mostly to upper-income Ohioans,” said Zach Schiller, Policy Matters Ohio research director. “Instead, we all ought to benefit from better education and public services that otherwise are being diminished with layoffs of teachers and police officers. Moreover, we need to reserve a portion of the increased revenue for the costs fracking is likely to create.”

Policy Matters Ohio will provide more analysis of the governor’s Mid-Biennium Review proposals in additional reports.

Policy Matters Ohio is a nonprofit, nonpartisan research organization with offices in Cleveland and Columbus. The Institute on Taxation and Economic Policy is a nonprofit, nonpartisan research group in Washington, D.C. ITEP’s Microsimulation Tax Model allows it to measure the distributional consequences of federal and state tax laws and proposed changes in them, both nationally and on a state-by-state basis.

³ Institute on Taxation & Economic Policy, *Who Pays? A Distributional Analysis of Tax Systems in all 50 States*, Released in Ohio by Policy Matters Ohio, Nov. 19, 2009, available at www.policymattersohio.org/?p=1576