Policy Matters Ohio

Tax Policy
January 2013

Ohio taxes hit poor and middle class much harder than the wealthy

50-state study provides detailed profiles, comparison of tax systems

Key findings

- Low- and middle-income Ohioans pay a larger share of their income in state and local taxes than rich Ohioans do.
- Cutting the state income tax, the only major state tax based on ability to pay, would add to this disparity.
- Adding in the interaction with federal taxes, non-elderly Ohio taxpayers with less than $17,000 in income pay nearly twice the share of their income in state and local taxes as those in the top 1 percent.

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

The top 1 per cent of non-elderly Ohio families by income, who earned at least $324,000 in 2010, on average pay 8.1 percent of their income in state and local income, property, sales and excise taxes. By contrast, the lowest fifth, who make less than $17,000, on average pay 11.6 percent. Families in the middle fifth of the income spectrum, who make between $31,000 and $49,000, on average pay 10.6 percent. These differences are even larger if you take into account the interaction of state and local taxes with the federal tax system.

The national report, the fourth edition of *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 in Ohio by Policy Matters Ohio. The study's main finding is that nearly every state and local tax system takes a much greater share of income from middle- and low-income families than from the wealthy.

The report highlights the critical role of Ohio's personal income tax in lessening the disparity between affluent taxpayers and everyone else. The state income tax, with graduated rates that increase as income does, is the only major tax based on ability to pay. Figure 1 shows how affluent Ohioans pay less of their income in state and local taxes than low- and middle-income Ohioans do, even though the state income tax offsets some of this disparity.

"The state income tax is a crucial part of Ohio's tax system," said Zach Schiller, Policy Matters Ohio research director. "Attempts to weaken it will either mean redistributing income from the poor and the middle class to the rich, or cutting needed public services."

The report measures the state and local taxes paid by different income groups (at 2010 income levels including the impact of tax changes enacted through January 2, 2013) as shares of income for every state and the District of Columbia. The report is available online at www.whopays.org

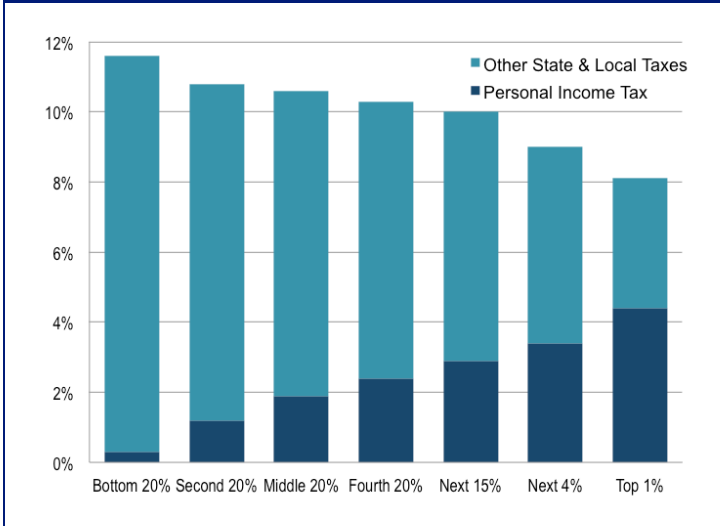
"Governors nationwide are promising to cut or eliminate taxes, but the question is who's going to pay for it," said Matthew Gardner, executive director of ITEP and an author of the study. "Do we want to ask poor and middle-class families, who already pay a larger share of their income, to pick up the slack for the wealthiest?"

State consumption tax structures are particularly regressive, with an average 7 percent rate for the poor, a 4.6 percent rate for middle incomes and a 0.9 percent rate for the wealthiest taxpayers nationwide.

The income tax in particular is being targeted for major reductions or elimination in states across the country, including Ohio. *Who Pays?* shows that of the ten most regressive states, four do not have any taxes on personal income, one state applies it only to interest and dividends and the other five have a personal income tax that is flat or virtually flat across all income groups.

Figure 1

Ohio state and local taxes as a share of income



Source: Institute on Taxation & Economic Policy. Shows shares of family income for non-elderly taxpayers. Figures show permanent law in Ohio enacted through Jan. 2, 2013, at 2010 income levels.

"Cutting the income tax and relying on sales taxes to make up the lost revenues is the surest way to make an already upside down tax system even more so," Gardner said. Ohio's major tax overhaul in 2005, which included an across-the-board 21 percent income tax cut, contributed to the growing regressivity of the state's tax system.

The data in *Who Pays?* also demonstrate that states commended as "low tax" are often high-tax states for low- and middle- income families. The ten states with the highest taxes on the poor are Arizona, Arkansas, Florida, Hawaii, Illinois, Indiana, Pennsylvania, Rhode Island, Texas, and Washington.

"When you hear people brag about their low-tax state, you have to ask them, low tax for who?" said Gardner. Ohio is tied for 11th with South Dakota.

The federal offset

Itemized deductions that many families take on their federal taxes further accentuate the difference between what wealthy, middle-income and poor Ohioans pay. Taxpayers may deduct some of their state and local taxes when they pay their U.S. taxes. Upper-income taxpayers are more likely to itemize and take advantage of these deductions, effectively passing the cost on to the federal government. Taking these deductions into account, the richest 1 percent of non-elderly Ohio families pays a little more than half as much of their income in state and local taxes as the lowest fifth do (6.3 percent vs. 11.6 percent).

Sales and excise taxes fall more heavily on less affluent families compared to those who are better off. The poorest fifth of Ohioans on average pay 6.7 percent of their income in sales and excise taxes, while those in the top 1 percent pay just 1 percent. Lower- and middle-income families also pay more of their incomes in property taxes than the most affluent families do. Even when low-income families do not own property, landlords may pass taxes through to them through rent. The lowest fifth pays 3.4 percent on average, compared to just 2 percent for the top 1 percent.

Details on how much each income group pays are included in an Ohio fact sheet available at policymattersohio.org/income-tax-jan2013. The analysis includes local income taxes, and reports as "Corporate income tax (local)" the portion of local income tax that is paid on business profits. While these amounts are so small that they round down to zero in that line of the table, they are included in the income-tax total for each income group.

###

Policy Matters Ohio is a nonprofit, nonpartisan state policy research institute with offices in Cleveland and Columbus. The Institute on Taxation and Economic Policy (ITEP) is a 501(c)(3) nonprofit, nonpartisan research organization that works on federal, state, and local tax policy issues. www.itep.org.