



Policy Matters Ohio is a think tank dedicated to creating a more vibrant, equitable, sustainable and inclusive Ohio, through research, strategic communications, coalition building, and policy advocacy. This brief is one of a series that gathers, in concise lists, some of our more practical and viable recommendations on state policy. The series builds on more than a dozen years of research to provide policymakers and advocates with research-based solutions to some of the state's most pressing problems while creating an Ohio economy that works for all.

A fair and adequate tax system

Ohio's overall tax levels are about average. But like most states, Ohio's tax system is weighted in favor of the most affluent. State and local taxes represent a larger share of poor and middle-class Ohioans' income than they do of the richest residents. State policy over the past decade has worsened this disparity. At the same time, the state has reduced revenue by about \$3.5 billion a year through cuts in the income tax and business taxes, and the repeal of the estate tax. This has slashed resources available for needed investments in education and human services, while money has been taken from local governments to help pay for the tax cuts. Ohio needs a state and local tax system that is equitable, provides adequate revenue, and is adapted for today's economy.

Tax cuts have been sold as a magic potion for Ohio's economy, but that approach hasn't worked: www.policymattersohio.org/jobwatch05-apr2013. Taxes simply aren't the huge factor in generating prosperity that they are often made out to be. Investments in education are more important: www.epi.org/publication/states-education-productivity-growth-foundations/. The steps cited below would strengthen and modernize Ohio's tax system.

Maintain and strengthen the state income tax. As in most states, Ohio's graduated income tax means higher earnings are taxed at a higher rate. It is the only major tax based on the ability to pay. Expected to generate more than \$16 billion in the current, two-year state budget, it is a crucial source of support for schools, libraries, human services and public safety, as well as for paying state debt that allows us to build or renovate roads, college buildings and community projects: www.policymattersohio.org/strong-income-tax-feb2012. The General Assembly should increase income-tax rates on the most affluent, starting with restoring the 7.5 percent rate on annual income over \$250,000 and creating a new 8.5 percent bracket on income over \$500,000.

Review tax exemptions and credits, sunset all tax breaks, and eliminate unproductive ones. Ohio officially has 129 of these "tax expenditures" as they are known, because they are a form of state spending. Already worth more than \$7 billion annually, more are added each year: www.policymattersohio.org/tax-breaks-aug2013. Some are worthwhile, while others – like the sales-tax cap on jet time-shares – should be ended. A review process is needed, and all tax expenditures should be given sunsets so they continue only if reauthorized.

Restore the business share of Ohio taxes. The share of taxes Ohio business paid, compared to that of individuals, shrank substantially during the two decades leading up to 2000. Then, in 2005, the legislature scrapped two major business taxes in favor of a Commercial Activity Tax (CAT) on gross receipts. Ohio is now one of just six states in the country without a corporate income tax, and the CAT brings in only half the revenue of the taxes it replaced. We should restore a solid corporate income tax, so that companies pay taxes on their profits, and integrate it with the CAT, so that we make up some of the revenue lost with the 2005 business tax changes.

Modernize the tax system so it covers the Ohio economy of today and tomorrow instead of yesterday. We must broaden the sales tax to cover more of the services that dominate the economy instead of raising the rate on a diminishing share of what people buy, as the General Assembly did in the current state budget. Sales tax is due now on Internet purchases, but online vendors don't have to collect it. Congress needs to change this, but in the meantime, Ohio should follow steps to boost collection taken by states like New York. Companies that extract Ohio's natural resources should pay appropriately for them – in particular, through a higher severance tax on oil and gas produced through horizontal wells (fracking). An increased severance tax would fund proper oversight and regulation of the industry, mitigate impacts on communities, help the state meet current needs and build diversity in the economy for after the boom is over: www.policymattersohio.org/severance-jan2014.

Ensure that low-income Ohioans are not paying more than their fair share. In 2013, the General Assembly created a state Earned Income Tax Credit, providing 5 percent of the federal EITC to eligible working taxpayers. But this will only be meaningful for many of the poorest Ohio workers if it is increased and made refundable like the U.S. credit – meaning if the credit exceeds an individual's tax liability, the state writes a check for the remaining credit: www.policymattersohio.org/eitc-oct2013. Ohio should also put in place a sales-tax credit that provides low-income residents a set amount for each family member to offset some of the additional cost of the broader sales tax. And the homestead exemption, a property-tax break for seniors, should go only to those who need it, not to wealthy owners of expensive homes. In 2013, the General Assembly took a step in the right direction by limiting the homestead exemption based on income, but it unwisely allowed all those already receiving it to continue to do so.

Reject moves that will keep school districts and local governments from being able to raise the resources they need. Last year the General Assembly eliminated property-tax “rollbacks” for new levies. The rollbacks are revenue-sharing programs used to cut homeowners' local property taxes by up to 12.5 percent. The change helps fund an income-tax cut that favors the most affluent Ohioans, while making it harder for school districts and local governments to pass local tax levies. Meanwhile, the legislature is considering an overhaul of the municipal income tax that does not address key loopholes in that tax, and could reduce revenue to municipalities already hard-hit by reductions in state aid. That needs a significant reworking.

Ohioans who want to ensure that we have the public services we need to support families and make Ohio prosper – and the revenue to pay for those services – should join with One Ohio Now, a coalition of more than 90 organizations (see www.oneohionow.org).

For more research by Policy Matters Ohio on Ohio's tax system, visit <http://bit.ly/1eUPpfN>.