Testimony to the Senate Finance Committee on Senate Bill 210

(Submitted in writing by Zach Schiller)

Chairman Oelslager, Ranking Member Sawyer and members of the committee: My name is Zach Schiller and I am research director at Policy Matters Ohio, a nonprofit, nonpartisan organization with the mission of creating a more prosperous, equitable, sustainable and inclusive Ohio. Thank you for the opportunity to provide this testimony regarding Senate Bill 210.

For years, North Dakota has had the lowest unemployment rate of any state in the nation. Nevada, by contrast, has had the highest (until December, when it fell to second-highest). North Dakota has a personal income tax, while Nevada has no personal income tax. There are, of course, other states that show a different pattern. This illustrates that taxes, and the personal income tax in particular, are not the major factor that determines state economic success.

Economists at the Federal Reserve Bank of Cleveland in a 2006 study reviewed decades of state economic performance to learn what factors had the most influence in per capita income growth. They concluded that average tax rates are not a statistically significant factor. More recently, Peter Fisher of the Iowa Policy Project and Noah Berger of the Massachusetts Budget and Policy Center looked at overall tax levels and median wages, and found no significant correlation. Only 5 percent of the 150 founders of some of the fastest-growing U.S. companies cited low tax rates as a factor in where to launch their business, according to a recent survey by Endeavor Insight; other factors carried far more weight. The Center on Budget and Policy Priorities noted in a report last year that, "In the last two decades, a number of states have cut taxes deeply in hopes of spurring economic gains, with unimpressive results. That's not surprising given that the preponderance of the peer-reviewed academic studies indicate that state and local personal income tax levels do not affect economic performance."

Ohio has embraced a different view. How has that worked? Not so well. In June 2005, income-tax rates were cut 21 percent and major business taxes were slashed. Whether one begins with the approval date, the beginning or end of the recession, or since the beginning of this administration in January 2011, the results have been the same: The Ohio job market underperformed the nation. Since June 2005, we have lost a greater share of our jobs than all but two other states, Rhode Island and Michigan. Since January 2011, Ohio private-sector employment growth has trailed behind the country's, at 3.97 percent compared to the U.S. increase of 6.44 percent.

Ohio taxes are about average. In 2011, according to U.S. data compiled by the Federation of Tax Administrators, our per capita state and local taxes ranked 27th among states. At $3,910, they were slightly below the U.S. average of $4,296. As a share of personal income, state and local taxes in Ohio ranked 19th, which at 10.9 percent were the same level as the national average. Most states are clustered around the same relative level of taxation.

However, Ohio's state and local taxes fall more heavily on low- and middle-income residents than on the most affluent (See the Institute on Taxation and Economic Policy's 2013 report at www.policymattersohio.org/income-tax-jan2013). Senate Bill 210 would reinforce this inequity. According to ITEP analysis, the bottom fifth of Ohioans, who made less than $19,000 last year, on average will receive an annual tax cut under SB 210 of $1 a year. By contrast, taxpayers in the top 1 percent of income, who earned more than $360,000 in 2013, will see an average reduction of $1,437. Families in the middle fifth of income, who made between $34,000 and $54,000, on average will see reductions of $28. These differences between income groups are even larger if you take into account the interaction of state and federal taxes.

Attention is often focused on the top rate of the income tax, paid in Ohio by considerably fewer than 5 percent of taxpayers. According to the taxation department, the average 2010 rate for Ohio residents after credits was 3.4 percent. That was before the last phase of the 2005 tax cuts was implemented and as an average, not a median, still overstates what the typical filer pays.

The income tax provides balance to Ohio's tax system. It is a significant contributor to our ability to repay our debts; without revenue from the income tax, the state would exceed the 5 percent debt limit this fiscal year. And it has allowed us to make investments – think, for instance, of our public libraries – that contribute to opportunity for all Ohioans, our quality of life and our attractiveness as a place to do business.

Ohio needs to make more such investments, instead of cutting the income tax. We remain an undereducated state; for instance, a smaller share of Ohio workers has college degrees than do their counterparts nationally. Yet Ohio need-based aid remains well below previous levels. Our support for public transportation ranks among the lowest in the nation, while some local transit agencies struggle to provide basic service. Public health investments remain inadequate. Efforts to combat tobacco use, for instance, while revived with a modest appropriation in the current budget, remain far below recommended levels. Efforts to reduce Ohio's shockingly high infant mortality rates should be a higher priority than tax cuts. Greater investments to restore neighborhoods hard-hit by the foreclosure crisis also are badly needed. In Cleveland alone, according to a recent study, $83 million would be required to demolish distressed homes that are fit to be condemned. While some of these could be rehabilitated, that would cost far more.

These are just some examples of the public needs in Ohio that are going unmet – and cuts in state aid have made it more difficult for communities to provide critical public services. We must restore funding to our counties, cities, villages and townships.

After the General Assembly raised the top income-tax rate to 7.5 percent in 1992, during the administration of Gov. George Voinovich, the state generated more than 100,000 jobs in each of the following three years. Compare that with the 25,600 jobs Ohio gained during 2013, the 40,300 in 2012, and the 77,600 in 2011. Tax levels are not the main thing driving job growth, and tax cuts that disproportionately benefit the most affluent Ohioans are especially inappropriate in light of growing inequality.

Mr. Chairman, thank you for allowing me to present testimony on Senate Bill 210.

Policy Matters Ohio is a nonprofit, non-partisan research institute
with offices in Cleveland and Columbus