Policy Matters Ohio

Executive Summary
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The Great Ohio Tax Shift

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Major changes in Ohio's tax system over the past nine years have slashed average annual tax bills for the state's most affluent 1 percent of taxpayers by more than $20,000, while the bottom three-fifths of state taxpayers as a group are seeing an overall increase.

That is the most significant finding of a new analysis conducted for Policy Matters Ohio by the Institute on Taxation and Economic Policy, a nonprofit research group in Washington, D.C., with a sophisticated model of state and local tax systems. ITEP examined major tax changes in Ohio since 2005, and how they affected Ohioans last year compared to what individuals and families would have paid had the pre-2005 tax system remained in place.

ITEP's analysis included tax changes such as the increase in the state sales tax from 5.0 percent to 5.75 percent; the creation of the Commercial Activity Tax (CAT) in 2005; the repeal of the tangible personal property tax, a local tax on machinery, equipment, inventory, furniture and fixtures; the repeal of the corporate franchise tax, which was Ohio's corporate income tax; the increase in the cigarette tax from 55 cents to $1.25 a pack, and reductions in the personal income tax, including the 21 percent rate reduction enacted in 2005, the 10 percent reduction approved in 2013, and the creation of a new deduction for business income approved last year. A full list of what the analysis covered is included in the report.

Key findings

- Ohio's top 1 percent are getting an average tax cut of $20,000 a year because of major tax changes since 2005
- The bottom 60 percent of Ohioans are paying more as a group
- All of the biggest tax changes since 2005 have further slanted Ohio's state and local tax system in favor of the affluent
- The $3 billion annual revenue cut has reduced resources for needed public services

ITEP found that as a group, the bottom three-fifths of Ohio taxpayers, with incomes of $54,000 a year or less, are paying more in state and local taxes because of the changes. Higher-income groups are seeing lower taxes overall because of the shifts in the tax code. While the results for individual taxpayers vary, on average, the benefits grow as income increases (see table, next page).

It is notable that while the very wealthiest got an annual tax cut exceeding $20,000 on average, the lowest fifth of Ohioans actually had income of less than $19,000 in 2013 – and saw their taxes rise slightly, on average. Individuals and families earning in the middle of the income range - $34,000 to $54,000 – also saw a small average increase in taxes, while the wealthiest enjoyed the $20,000 windfall.

ITEP's analysis, which examined the impact on Ohio residents only, includes the new state nonrefundable capped Earned Income Tax Credit (EITC), created in 2013 and increased to10 percent of the federal credit earlier this year. While the state EITC reduces the income tax for some moderate-income taxpayers, it and other steps like it are overwhelmed by other measures that increased taxes especially for low- and middle-income Ohioans. These include increases in the sales tax and the enactment of the CAT, a share of which is passed on to consumers.

Table 1

Impact of Ohio tax changes on different income groups, 2005 to date

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income range	**Less than $19,000**	**$19,000 - $34,000**	**$34,000 - $54,000**	**$54,000 - $82,000**	**$82,000 - $151,000**	**$151,000 - $360,000**	**$360,000 or more**
Average income	$11,000	$26,000	$44,000	$66,000	$106,000	$217,000	$1,006,000
Average tax change	+$138	+$142	+$65	-$95	-$609	-$2,919	-$20,477
Tax change as share of income	+1.2%	+0.5%	+0.1%	-0.1%	-0.6%	-1.3%	-2.0%

Source: Institute on Taxation and Economic Policy, July 2014. Covers total 2013 income and includes Ohio residents only. See Data Note in the report for what is included in the analysis.

The personal income tax cuts resulted in lower taxes for all income groups. However, the most affluent Ohioans saw far larger income-tax cuts than lower- and middle-income residents, both in absolute dollars and as a share of their incomes. Ohio's progressive income tax increases with income, so when it is cut across the board, the biggest benefits go to the richest tax filers. For low-income Ohioans, income taxes are a very small share of the state and local taxes they pay, so even substantial cuts in income tax don't change their overall taxes very much.

Lower- and middle-income Ohioans pay a larger share of their incomes in state and local taxes than the most affluent do. While other useful policy goals may have been achieved with some of the tax changes, such as a better balance in the tax load between manufacturers and other industries through the changes in business taxes, or public health benefits from higher cigarette taxes, one of their effects was to further slant Ohio's tax system against those least able to pay.

The tax changes since 2005 also have slashed the amount of revenue available for investment in needed services, costing $3 billion a year. Ohio has giant unmet needs, from reducing our shocking infant mortality rate and supporting more students to attend college to combating the blight from tens of thousands of vacant abandoned properties. At the same time, the state's job market has underperformed the nation's. Between June 2005 and July 2014, Ohio lost 126,000 jobs, or 2.3 percent of its total, while the nation gained more than 5 million, or 3.8 percent.

The major changes in Ohio tax policy over the past nine years have favored the richest Ohioans. They have seen significant tax cuts, while the bottom three-fifths of Ohio earners as a group are paying more. In effect, lower-income Ohioans are helping to pay for tax cuts for others who earn much more. Our job growth, meanwhile, has trailed the country's, and we do not have available significant resources that could be used to improve public services. Ohio needs to dramatically alter its tax policy.