Ohio's recent tax changes reward the well-to-do

By Zach Schiller

The top 1 percent of Ohioans on average will see a $17,618 annual reduction in state taxes as a result of major tax changes made during the Kasich administration, while the bottom fifth will pay $17 more. This is the result of cuts in state income taxes, the major tax that is based on the ability to pay, and increases in other taxes such as the sales tax that fall more heavily on lower- and middle-income Ohioans.

Annual impact of tax changes enacted during Kasich administration

Average **cut** for top 1%

-$17,618

Average **cut** for middle 20%

-$94

Avg. ***increase*** for lowest 20%

+$17

Those are the key findings of an analysis of those changes by the Institute on Taxation and Economic Policy (ITEP), a nonprofit national research group with a sophisticated model of state and local tax systems across the country.[1] This brief reviews ITEP's findings, which cover the effect of the tax changes when fully implemented on Ohio residents (see note at end for full description of what is included in the analysis).

Middle-income Ohioans will see small tax cuts, averaging $94 a year. Those lower down on the income scale will see even less, while some of the poorest Ohioans will have to pay a little more. Leaving aside the tax increases that were approved, the top 1 percent will receive 38 percent of the income-tax cuts, while the bottom three-fifths gets just 12 percent of the total.

Table 1 shows how the changes affect annual taxes for Ohioans in different income groups.

[1] Policy Matters Ohio previously released ITEP data on tax changes approved this year and those approved earlier, respectively. However, both because of overlap between the bills approving the changes and ITEP's use of more current income data in analyzing the 2015 measure, it is not accurate to simply add the results of these two analyses.

Table 1							
Annual impact of tax changes enacted during Kasich administration							
	Lowest 20%	**Second 20%**	**Middle 20%**	**Fourth 20%**	**Next 15%**	**Next 4%**	**Top 1%**
Income range	**Less than $20,000**	**$20,000 - $37,000**	**$37,000 - $58,000**	**$58,000 - $89,000**	**$89,000 - $163,000**	**$163,000 - $388,000**	**$388,000 or more**
Average income	$12,000	$28,000	$47,000	$72,000	$115,000	$234,000	$1,071,000
Tax Change as % of Income	+0.1%	-0.2%	-0.2%	-0.3%	-0.4%	-0.9%	-1.6%
Average Tax Change	+$17	-$44	-$94	-$192	-$504	-$1,999	-$17,618

Source: Institute on Taxation and Economic Policy, August 2015. Based on 2014 income levels and includes Ohio residents only. Includes major tax changes in the 2013 budget bill, the 2014 Mid Biennium Review and the 2015 budget bill when fully implemented. A list of what is covered is in the data note at the end of the brief.

Across-the-board cuts in Ohio's state income tax, of 10 percent in 2013 and another 6.3 percent this year, were a key element in the tax changes. These flow heavily to high-income residents because like most states, Ohio has a graduated income tax, under which higher amounts of income are taxed at a higher rate. Likewise, upper-income Ohioans especially benefit from a big new tax break for business income that was approved in 2013 and then further expanded this year, likely making it the second-largest tax break in state law. These changes far overshadowed changes in the income tax that were aimed at lower- or middle-income Ohioans, such as the creation of a nonrefundable state Earned Income Tax Credit.

Moreover, some of these tax cuts are being paid for in part with tax increases that fall more heavily on lower-income Ohioans, such as the quarter-penny hike in the sales tax rate and the boost in the cigarette tax. This reinforced the existing structure of the state and local tax system, which is weighted in favor of upper-income taxpayers.[2] Overall, lower- and middle-income Ohioans pay a larger share of their income in state and local taxes than the affluent do.[3]

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[2] Of course, only smokers will pay the added cigarette tax. This 35-cent-a-pack tax increase is worthwhile because of the demonstrated improvement of higher tobacco taxes on public health. However, this increase falls most heavily on the lowest-income Ohioans. Cigarette taxes are charged per unit, not based on price, and lower-income individuals are more likely to smoke. Even excluding the cigarette tax boost, the tax changes remain highly rewarding to Ohio's most affluent, while providing meager benefits to most—the bottom 20 percent on average gets an annual tax cut of $4, while the middle fifth gets an average cut of just $122.

[3] See Wendy Patton, "Ohio's state and local taxes hit poor and middle class the hardest," Policy Matters Ohio, Jan. 14, 2015, at http://www.policymattersohio.org/tax-report-jan2015. This report shows tax levels prior to the 2015 tax changes, so it includes previous changes included in this brief. As noted in another Policy Matters Ohio report, this year's tax changes further advantaged upper-income taxpayers compared to others. See Zach Schiller, "Well-Off Are Winners in Ohio Tax Plan," Policy Matters Ohio, June 26, 2015, at http://www.policymattersohio.org/taxplan-june2015. This year's changes came on top of a shift in who pays Ohio's taxes over the past decade. See Zach

The recent tax changes also have slashed the amount of revenue available for investment in needed services. The Office of Budget and Management estimated this year's changes alone will cost nearly $1.9 billion over the two-year state budget.[4] This came despite major unmet public needs. For example, the state has made ongoing cuts to local government that add up to $1.7 billion during the current budget compared to the one six years ago.[5] The state has yet to restore support for children's services, child care and need-based college aid to earlier levels, and ignored the findings of its own study that found Ohio needs significant investment in public transit.[6]

Proponents of the tax changes contend that they help Ohio's economy, and jobs in particular.[7] However, despite the tax changes, Ohio's job performance has lagged behind that of the nation since June 2005, when the General Assembly approved a phased-in, 21 percent reduction in the income tax; since the Kasich administration took office in January 2011; since June 2013, when the first tax changes analyzed in this brief were approved, and over the past year. Table 2 shows Ohio and U.S. job changes during these time periods:

Table 2

Ohio and U.S. Job Change through July 2015

	Ohio	U.S.	Ohio (% change)	U.S. (% change)
Since June 2005	-15,800	8.16 million	-0.3%	6.1%
Since January 2011	331,100	11.2 million	6.5%	8.6%
Since June 2013	142,300	5.8 million	2.7%	4.3%
Since July 2014	56,800	2.9 million	1.1%	2.1%

Source: U.S. Bureau of Labor Statistics, Current Employer Statistics, seasonally adjusted numbers, at http://www.bls.gov/sae/ and http://www.bls.gov/ces/

Schiller, "The Great Ohio Tax Shift," Policy Matters Ohio, Aug. 18, 2014, at http://www.policymattersohio.org/tax-shift-aug2014#sthash.2C2Qbj2z.dpuf

[4] See Office of Budget and Management, Tax Reform Scoring Sheet; FY 2016-2017 Operating Budget-All State Funds

[5] Patton, Wendy, "State Budget Hammers Local Governments – Again," Policy Matters Blog, Aug. 24, 2015, at http://www.policymattersohio.org/blogpost-localgovt-aug2015

[6] See Joseph A. Calabrese, Greater Cleveland Regional Transit Authority, "Public Transportation: Connecting the Dots for Those in Poverty," Testimony to the Ohio House Committee on Community and Family Advancement, Aug. 12, 2015, at http://www.ohiohouse.gov/committee/community-and-family-advancement

[7] See for instance Joe Testa, Tax Commissioner, Testimony to Ohio House Finance Committee, Feb. 12, 2015, p. 1, at http://www.ohiohouse.gov/committee/finance

Ohio's recent tax policy hasn't achieved even average job results. Yet it has advantaged upper-income Ohioans at the expense of lower-income residents and drained revenue that is needed to invest in our people and services. It's a policy that needs to be reversed.

Data Notes

The ITEP analysis covers Ohio residents and is based on 2014 income levels. It includes the 10 percent across-the-board income tax cut approved in 2013 and the additional 6.3 percent reduction approved this year, the business income exemption on the first $250,000 and 3 percent flat rate on such income above that amount, the increase in the state sales tax from 5.5 percent to 5.75 percent, the tiered minimum rates under the Commercial Activity Tax, the elimination of the $20 personal exemption credit for those with $30,000 or more in annual income, the repeal of the income-tax deduction for gambling losses, the capped 10 percent nonrefundable Earned Income Tax Credit, the expanded personal exemptions for those making $80,000 or less, the 35-cent-a-pack increase in the cigarette tax, and the means-testing of the senior and retirement income credits.

The analysis does not include the repeal of the estate tax, which was effective in 2013, and the advent of casinos and racinos that generate tax revenue and payments to the Ohio Lottery (the latter is in part because we don't know what share of the tax revenue comes from Ohioans). Inclusion of these changes would have further increased the regressivity of Ohio's state and local tax system. The analysis does not include some other tax changes that were either quite small or are not easily modeled.

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 non-profit, non-partisan research organization based in Washington, D.C. that works on federal, state, and local tax policy issues. 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. We are grateful to the Saint Luke's Foundation, the George Gund Foundation, the Ford Foundation, and the Center on Budget and Policy Priorities for funding that enables us to do this analysis.