

For immediate release

January 5, 2016

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Flat tax would make most Ohioans pay more

New report shows top 1 percent would get a big break on state income taxes

If Ohio's General Assembly flattened the state's tiered income tax to a single rate of 3.5 percent, the vast majority of Ohioans would pay more on 2016 earnings than they do now, while the richest 1 percent would get another big tax break every year, a new study finds.

The General Assembly created the 2020 Tax Policy Study Commission in 2015 in part to recommend how to transition to a flat state income tax rate of 3.5 or 3.75 percent.

Using a sophisticated model of Ohio's tax system, the national research group, Institute on Taxation and Economic Policy (ITEP), found that with a 3.5 percent flat tax, 72 percent of Ohioans would pay more state income tax, while just 4 percent would pay less. The remaining 24 percent would pay the same amount as they do now. Results are similar with a flat tax rate of 3.75 percent: 74 percent would pay more.

"Ohio has already slashed taxes on top earners, and the highest-income Ohioans take home a bigger share of state earnings than they used to," said Zach Schiller, research director at Policy Matters Ohio and report author. "Creating a flat tax would make most Ohioans pay more so a small number – the most affluent – could pay less. That's a bad deal for Ohio."

Ohio, like most states, has a progressive income tax, under which rates increase on new income as income rises. Rates rise gradually to just under 5 percent on income greater than \$210,600 a year.

At a 3.5 percent flat tax the top 1 percent of earners, with incomes greater than \$397,000 a year, would get tax cuts averaging more than \$4,000 per year. The bottom four-fifths of taxpayers – those making less than \$92,000 a year – would pay for 81 percent of those cuts.

"Cutting rates on top earnings, where income growth has been significant, could weaken the state's ability to generate sustainable revenue for schools, universities and other essentials," Schiller said. "Ohioans simply cannot afford a flat state income tax and the commission should recommend against it."

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*Policy Matters Ohio is a nonprofit, nonpartisan state policy research institute
with offices in Cleveland and Columbus.*