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Ohio should scrap a big, unproductive tax break

Kansas legislators have a lesson: Deduction for business income is a loser

The Ohio General Assembly should take a lesson from Kansas legislators: It's time to scrap a big tax break for business income that is draining hundreds of millions of dollars a year that's badly needed for education and other important services.

The Kansas legislature voted last week to repeal a tax break that permits owners of "passthrough" businesses such as partnerships and S Corporations to avoid paying any income tax for such business income. They're called "passthrough" businesses because their owners pay tax on the income as individuals when it passes through to them. Kansas struggled for years to balance its budget because of this and other tax cuts, even while they clearly did little to improve the state's economy. Kansas Governor Sam Brownback vetoed the measure, but its passage shows bipartisan recognition of the failure of this tax policy.

Ohio has a similar tax break, which exempts the first \$250,000 in business income and lowers the rate on the rest. But data from the Bureau of Labor Statistics show that Ohio businesses hiring employees for the first time – the very ones that are a main target of the tax break – haven't increased such hiring since the break was approved in 2005.

Recently, the taxation department estimated this tax break is now the state's third-largest, and will soon cost nearly \$600 million a year. "Let's learn from Kansas legislators," said Zach Schiller, Policy Matters Ohio research director and author of an item on the issue. "Ohio should take the same step they did."

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