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Income tax plays crucial role in Ohio

Policy Matters Ohio today issued a brief on the state income tax as a resource for the public and policymakers alike.

Ohio's income tax is the only major tax that is based on ability to pay. As your taxable income goes up, you pay a higher rate. Yet despite this, lower- and middle-income Ohioans still pay a larger share of their income in state and local taxes than affluent taxpayers do because of other taxes.

The income tax is the largest single source of state revenue – in the current two-year state budget, it is forecast to account for 30 percent of revenue or close to \$17 billion for Ohio's main operating budget. That's more than all state spending on K-12 education—and the state pays for nearly half of K-12 costs.

However, as much as state services from operating prisons to higher education depend on the income tax, they are only part of the equation. The income tax also supports:

- Lower local property taxes, which are subsidized by the state;
- A myriad of local services, from police and fire protection to street lighting and trash collection, which depend on the Local Government Fund;
- Public libraries, which get half their operating funds from the state; and
- Lower federal taxes, since state income taxes can be written off on federal returns.

The state income tax also contributes to a diverse revenue base and provides financial stability. Without the income tax, the State of Ohio would breach the state's constitutional 5 percent debt limit next fiscal year, according to a Policy Matters Ohio analysis of the most recent estimates on debt obligations and revenues from the Office of Management & Budget. This would cramp Ohio's ability to pay its debts and jeopardize spending on needed capital projects.

“Ohio's income tax should be protected to make our tax system fair, provide the services we need and make investments in our future,” said Zach Schiller, report author and research director of Policy Matters Ohio.

Key findings

- The state income tax is the only major tax based on ability to pay
- It is the biggest state revenue source, amounting to more than state spending on K-12 education
- Without it, Ohio would soon breach the state debt limit, jeopardizing capital projects
- It supports lower property taxes and local services, such as police and fire protection