PRESS RELEASE

January 9, 2024
Bailey Williams
bwilliams@policymattersohio.org
216.361.9801

Ohio's tax system perpetuates inequality

As a share of income, top 1% pay less than half as much as lowest-paid, new study finds

For decades, policymakers have chipped away at Ohio's income tax, leaving the state tax system upside-down: Low- and middle-income families spend a far larger share of their income on taxes than wealthy Ohioans do. In 2023, the lowest-paid Ohioans spent more than twice as much of their income on taxes as the highest-paid. This regressive state and local tax system is the 15th most unfair in the country, according to a new study released today by the Institute on Taxation and Economic Policy (ITEP).

ITEP, a Washington, D.C. nonprofit with a sophisticated model of state and local tax systems, found that the top 1% of non-elderly Ohio families — those who earn at least $622,800 annually, and made on average $1,051,300 in 2023 — pay an average 6.3% of their income in state and local taxes: income, property, sales, and excise. In comparison, Ohioans with incomes in the lowest 20% — those who make less than $22,500 — pay an average effective state and local tax rate of 12.7%. Ohio families and individuals in the middle 20% of income distribution — those making between $43,600 and $76,200 annually — pay an effective state and local tax rate of 10.4%.

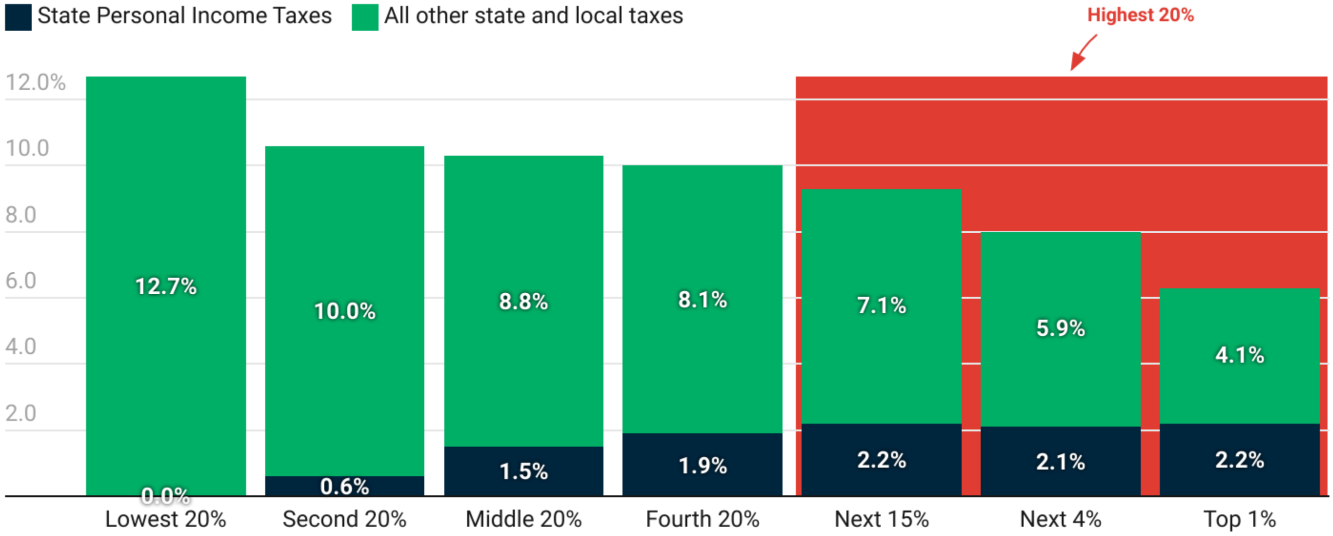
The latest edition of ITEP's *Who Pays?* report, its seventh iteration, produced an inequality index based on how the state and local tax system affects low- and middle-income families compared to the wealthiest 1%. (For details on how ITEP calculated these rankings, see the Methodology section of the report.) ITEP's report analyzes the tax systems of all 50 states and D.C. Compared to the national average, Ohio's low- and middle-income families pay a slightly higher share of their income in state and local taxes, while the richest pay a slightly smaller share.

The state income tax is based on ability to pay: It has graduated rates that increase as income does. It is the only major tax that is structured this way. All other state and local taxes are regressive, falling more heavily on people with lower incomes and more than cancelling out the fairness of the income tax's structure.

The chart below illustrates: The small blue portion at the base of each column represents the share of income spent on income tax. Note that it increases slightly from left to right. The large green portion represents the share spent on all other state and local taxes. From left to right, the share shrinks. Combined, the effect is obvious: Despite a slightly progressive income tax, state and local taxes in Ohio favor the wealthy.

Despite progressive income tax, Ohio's tax system is inequitable

Total state & local taxes as a share of income, by income group



Source: Policy Matters Ohio, based on data from the Institute on Taxation and Economic Policy's "Who Pays?" report, 7th edition (2023). Based on 2023 income levels. Includes non-elderly Ohio residents. Table shows fully phased-in law in Ohio enacted through 2023. • Created with Datawrapper

In the past two decades, Ohio policymakers have chosen time and again to make this problem worse by eliminating state income tax brackets. They did so most recently in the 2024-25 budget bill, which included roughly $750 million in annual tax cuts, most of which went to wealthy Ohioans.

The table below is a more complete breakdown of taxes paid by income groups among non-elderly Ohioans in 2023. Among the three major sources of tax revenue (Income, Sales and Excise, and Property), only Ohio's income tax is a progressive tax, although there is a caveat to how progress the tax is. The income tax levied at the state level, as opposed to local income taxes, are levied in a progressive manner. The local income taxes are assessed at flat rates and fall about equally on different income groups. Considering how regressive both sales and property taxes are, flat income taxes place a disproportionality higher tax burden on lower-income people while wealthier taxpayers avoid paying their fair share. Sales and excise taxes fall most heavily on the poorest Ohioans, who pay 7.2% of their income in such taxes versus just 1.1% for the top 1%. That's because they're levied at a flat rate, and spending as a share of income falls as income rises. They also make up the largest share of state and local taxes in Ohio, a larger share than in the country as a whole. Property taxes are also regressive, though less so than sales and excise taxes. Property taxes are often levied on a property's value without consideration of the property owner's income. For homeowners, home values as a share of income tend to decline at higher incomes. In addition, studies have found that inaccurate property valuations often result in high-value homes being taxed at a fraction of their value compared to low-value homes.

Policy Matters Ohio

Taxes as a share of income by income group, non-elderly Ohio taxpayers, 2023

Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less than $22,500	$22,500 to $43,600	$43,600 to $76,200	$76,200 to $130,800	$130,800 to $235,800	$235,800 to $622,800	Over $622,800
Average Income in Group	$12,500	$32,300	$59,200	$100,800	$163,400	$341,400	$1,051,300
Sales & Excise Taxes	7.2%	5.6%	4.5%	3.7%	2.9%	1.9%	1.1%
Property Taxes	3.8%	2.6%	2.6%	2.7%	2.6%	2.4%	1.4%
Income Taxes	1.5%	2.2%	3.1%	3.4%	3.7%	3.6%	3.7%
State Income Taxes	*0.0%*	*0.6%*	*1.5%*	*1.9%*	*2.2%*	*2.1%*	*2.2%*
Local Income Taxes	*1.5%*	*1.6%*	*1.6%*	*1.6%*	*1.5%*	*1.5%*	*1.5%*
Other Taxes	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%
Total Taxes	12.7%	10.5%	10.4%	10.0%	9.3%	8.0%	6.3%

Source: ITEP, January 2024. Based on 2023 income levels. Includes non-elderly Ohio residents. Table shows fully phased-in tax law in Ohio enacted through 2023. Numbers may not add due to rounding • Created with Datawrapper

Who Pays? looked into which states had the most regressive features in their tax codes. Eight of the ten most regressive tax states rely on sales and excise taxes a great deal. Among these same ten, six do not levy a state personal income tax, while two have a flat state income tax. By comparison, in the more fairly taxed states, roughly 40% of their tax revenue comes from income taxes, and they prioritize refundable tax credits like the Earned Income Tax Credit (EITC). While Ohio has a state EITC, it is nonrefundable, leaving out many low-income families.

While cutting income taxes, Ohio legislators also created an enormous special tax break for business income. They also eliminated the estate tax and replaced the corporate profits tax with a tax on gross receipts, the Commercial Activity Tax. All this has reduced resources available for needed public services and made Ohio's state and local tax system even more unfair.

"When you ask people what they think a fair tax code looks like, almost nobody says we should have the richest pay the least. And yet when we look around the country, the vast majority of states have tax systems that do just that," says Carl Davis, ITEP's Research Director. "There's an alarming gap here between what the public wants and what state lawmakers have delivered."