Policy Matters Ohio

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U.S. tax law is a boon to the affluent

Proposal to make other tax cuts permanent is another huge gift to the wealthy

A new analysis of the tax law Congress passed last December shows that it will shower benefits on the most affluent Ohioans – and that making its temporary provisions permanent will add to their gains, while providing much more modest savings for most residents.

The average tax cut for the top 1 percent of Ohioans, who make at least $480,000 a year and average close to $1.3 million, will be $40,190 for 2018. Those in the middle, with an average income of $48,300, will average just an $800 cut, while those in the bottom fifth will get just $100. Those are some of the conclusions of an analysis by the Institute on Taxation and Economic Policy.

Earlier ITEP modeling showed that the bottom three-fifths of Ohio taxpayers would be paying more on average after the temporary provisions expired. Now, some have proposed extending those temporary provisions under the guise of "extending the middle-class tax cuts." But in fact, as the new ITEP analysis shows, this would disproportionately benefit the same high-earning Ohioans as the original law. While the richest 1 percent would get a tax cut of $27,910 in 2026, middle-income Ohioans would average $720, and the poorest fifth would receive just $140.

The ITEP analysis shows that the top 1 percent of Ohioans get more under the tax law in 2018 than the bottom 60 percent of earners combined. This tiny group would similarly receive more of the benefits than the bottom 60 percent if lawmakers extend the temporary provisions in 2026, when those provisions otherwise would expire. And the same would be true if you combined the impact of the existing law with an extension of those provisions.

The temporary provisions cover most of the new law's income-tax changes for families and individuals, such as changes in brackets, cutbacks to the estate tax and the major new income-tax deduction for certain business income. ITEP's analysis includes all of these elements, though not the 100 percent expensing of business equipment. If that were included in the proposal to extend the temporary tax provisions, the richest households would receive even greater tax breaks. Permanent provisions of the Tax Cuts & Jobs Act (TCJA) include reducing the corporate tax rate from 35 percent to 21 percent, moving to tax only U.S. corporate earnings, eliminating the penalty for not obtaining health insurance, and other changes mostly affecting business taxes.

Table 1 shows how taxpayers in different income groups will be affected by the new federal tax law in 2018, while **Table 2** reviews how they will do if the temporary provisions are made permanent as of 2026. The richest Ohioans also will also see considerably greater gains as a share of their income than lower- or middle-income residents do from the permanent tax changes in the law. The same would be true if the temporary cuts were extended.

Table 1

Impacts in 2018 of the Tax Cuts and Jobs Act in Ohio

Income	Income Range			Average Income	Total Tax Change (Thousands)	Avg. Tax Change	Share of Tax Change	Tax Change as share of Pre-Tax Income
Poorest 20%	Less than		$22,400	$13,000	$ -117,000	$ -100	1%	-0.8%
Second 20%	$22,400	to	$38,700	$30,400	$ -419,600	$ -370	4%	-1.2%
Middle 20%	$38,700	to	$58,900	$48,300	$ -917,100	$ -800	10%	-1.7%
Fourth 20%	$58,900	to	$95,800	$74,400	$ -1,455,200	$ -1,270	15%	-1.7%
Next 15%	$95,800	to	$193,800	$129,100	$ -2,220,400	$ -2,590	23%	-2.0%
Next 4%	$193,800	to	$480,000	$284,200	$ -2,203,800	$ -9,590	23%	-3.4%
Richest 1%	$480,000	or	more	$1,288,400	$ -2,318,300	$ -40,190	24%	-3.1%
ALL				**$76,000**	**$ -9,651,300**	**$ -1,670**	**100%**	**-2.2%**
Bottom 60%	Less than		$58,900	$30,600	$ -1,453,700	$ -420	15%	-1.4%

Source: Institute on Taxation and Economic Policy, April 10, 2018. https://itep.org/tcja20182026/

Table 2

Impacts in 2026 of Extending Temporary TCJA Provisions in Ohio

Income Group	Income Range			Average Income	Total Tax Change (Thousands)	Avg. Tax Change	Share of Tax Change	Tax Change as share of Pre-Tax Income
Poorest 20%	Less than		$29,000	$16,900	$ -172,000	$ -140	2%	-0.8%
Second 20%	$29,000	to	$49,300	$39,000	$ -543,400	$ -440	6%	-1.1%
Middle 20%	$49,300	to	$75,900	$62,200	$ -878,500	$ -720	10%	-1.2%
Fourth 20%	$75,900	to	$118,800	$95,000	$ -1,438,700	$ -1,170	16%	-1.2%
Next 15%	$118,800	to	$247,800	$161,400	$ -1,956,000	$ -2,130	22%	-1.3%
Next 4%	$247,800	to	$596,100	$351,000	$ -2,076,800	$ -8,350	24%	-2.4%
Richest 1%	$596,100	or	more	$1,536,600	$ -1,742,800	$ -27,910	20%	-1.8%
ALL				**$95,400**	**$ -8,806,500**	**$ -1,420**	**100%**	**-1.5%**
Bottom 60%	Less than		$75,900	$39,400	$ -1,593,900	$ -430	18%	-1.1%

Source: Institute on Taxation and Economic Policy, April 10, 2018. https://itep.org/tcja2018

Table 3 shows how taxpayers would do if the temporary provisions are extended, together with the permanent provisions already enacted. As with either of the two on their own, the wealthiest 1 percent receives more than the bottom 60 percent. **Table 4** shows how the existing provisions play out as of 2026, and the effect of adding to that a proposal to make the temporary provisions permanent.

Table 3

Impacts in 2026 of TCJA as Enacted Plus Extension of Temporary Provisions in Ohio

Income					Combined Impact			
Income Group	**Income Range**			**Average Income**	**Total Tax Change (Thousands)**	**Avg. Tax Change**	**Share of Tax Change**	**Tax Change as share of Pre-Tax Income**
Poorest 20%	Less than		$29,000	$16,900	$ -73,600	$ -60	1%	-0.4%
Second 20%	$29,000	to	$49,300	$39,000	$ -424,800	$ -350	5%	-0.9%
Middle 20%	$49,300	to	$75,900	$62,200	$ -833,900	$ -680	9%	-1.1%
Fourth 20%	$75,900	to	$118,800	$95,000	$ -1,478,400	$ -1,200	16%	-1.3%
Next 15%	$118,800	to	$247,800	$161,400	$ -2,035,700	$ -2,220	23%	-1.4%
Next 4%	$247,800	to	$596,100	$351,000	$ -2,213,300	$ -8,900	25%	-2.5%
Richest 1%	$596,100	or	more	$1,536,600	$ -1,968,400	$ -31,520	22%	-2.1%
ALL				**$95,400**	**$ -9,016,800**	**$ -1,450**	**100%**	**-1.5%**
Bottom 60%	Less than		$75,900	$39,400	$ -1,332,400	$ -360	15%	-0.9%

Source: Institute on Taxation and Economic Policy, April 10, 2018. https://itep.org/tcja2018

Table 4					
Average Tax Changes in 2026 in Ohio					
	TCJA as Enacted	**+**	**Proposed Extension**	**=**	**Combined Impact**
Poorest 20%	$+80	+	$ -140	=	$ -60
Second 20%	$+100	+	$ -440	=	$ -350
Middle 20%	$+40	+	$ -720	=	$ -680
Fourth 20%	$ -30	+	$ -1,170	=	$ -1,200
Next 15%	$ -90	+	$ -2,130	=	$ -2,220
Next 4%	$ -550	+	$ -8,350	=	$ -8,900
Richest 1%	$ -3,610	+	$ -27,910	=	$ -31,520
ALL	**$ -30**	**+**	**$ -1,420**	**=**	**$ -1,450**
Bottom 60%	$+70	+	$ -430	=	$ -360

Source: Institute on Taxation and Economic Policy, April 10, 2018. https://itep.org/tcja2018

The rising deficits from the tax cuts may be used as an excuse to cut public services that help everyone thrive. The tax bill will increase the deficit by an anticipated $1.9 trillion dollars, when interest is taken into consideration. Congress may backfill by cutting programs that protect the lowest-income families from the worst extremes of hunger and hardship. President Trump's budget for 2019 illustrates the intention: for example, it proposes cutting Medicaid and other health care programs for low income workers and disabled people by $763 billion over the next ten years. It would cut federal food aid (SNAP) by 20 percent, $213 billion. There are efforts in Congress to carry this out already, as we see in the proposed federal farm bill, which contains eligibility and benefit cuts that will cause about 2 million people — particularly low-income working families with children — to lose food aid, or have it cut.

As tax day approaches, it's useful to put U.S. taxes in context. In fact, we are one of the least taxed developed countries, and we collect substantially less in corporate taxes than average among the 34 most developed nations. That was before the new federal tax law, which cut the corporate tax rate from 35 percent to 21 percent.

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