Policy Matters Ohio

TESTIMONY
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Tax & Budget

Testimony on HB 166 before the Senate Finance Committee

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Good morning, Chairman Dolan, Vice-chair Burke, Ranking Member Sykes and members of the committee. My name is Wendy Patton and I am a senior project director of Policy Matters Ohio, a nonprofit, nonpartisan organization with the mission of creating a more prosperous, equitable, sustainable and inclusive Ohio.

The state of Ohio has $6 billion less in tax revenues as a result of tax cuts since 2005, and has need of many investments. The box below shows just a few of the investments a state budget could and should make in the people and communities of Ohio.

Essential investments for Ohio

- Maintain the Medicaid expansion without freezes and barriers to coverage and care.
- Make the state Earned Income Tax Credit refundable to reach the poorest Ohioans.
- Raise eligibility for public child care aid to 200 percent of poverty, starting in this budget, and ensure stable funding for a higher quality public childcare system.
- Keep seniors safe at home by boosting adult protective services to $10 million a year.
- Rebuild revenue sharing with Ohio's local governments. Start with restoration of the Local Government Fund's municipal distribution.
- Retain important investments in the Executive and House budgets for an expanded state share of indigent legal services.
- Base school foundation funding on a formula that ensures rich and poor communities have equally good schools, regardless of local property wealth.
- Reduce the high cost of college tuition with more funding to the State Share of Instruction. Index it to inflation so support for Ohio's system of public higher education does not eroded over time.
- Fully fund the Ohio College Opportunity grant (our need-based aid system), increasing it from $100 million to $250 million a year, as recommended by Governor Taft's student aid task force, and make it available to students at 2-year as well as 4-year schools.
- Fully fund the foodbanks' request for an additional $10 million a year in food aid. Modernize and expand the fee that supports the Housing Trust Fund to increase the supply of affordable housing

TAX POLICY CHANGES IN THE HOUSE BUDGET

We applaud the proposed limitation on the costly and ineffective business income deduction, often known as the LLC Loophole, along with steps to keep it from being abused by high-income taxpayers. This $1 billion tax break deserves to go on the scrap heap. It has not spurred an increase in first-time hiring by new businesses, and the growth of passthrough entities has continued to trail the national average. Reducing the size of the deduction to $100,000 is an excellent first step. Eliminating the special 3% rate on income above the deductible amount is a second. This goes only to the most affluent and, like the deduction, has further slanted our tax system in favor of those who need such treatment least.

The House budget bill would have Ohio join the growing ranks of states that require online and catalogue retailers to collect the sales tax, as the U.S. Supreme Court allowed in its Wayfair decision last year. Including marketplace facilitators is a crucial element. These steps will create a more level playing field between out-of-state retailers and Ohio merchants, enable an existing tax to be collected, and generate revenue that can be used for needed services. The bill also takes appropriate steps in phasing out tax breaks such as the sales-tax exemptions for fractional jet aircraft and investment bullion and coins, as well as the motion-picture tax credit.

Using the proceeds of these welcome changes to cut income-tax brackets and rates, however, will do little for most of the poorest Ohioans. Low-income Ohioans pay a much larger share of their income in state and local taxes than the richest Ohioans do. But many pay little or no income tax. Under the House bill, tax cuts would go mostly to those with higher than average incomes. Those benefitting the most in dollars under the House plan have already gained on average from the state's tax changes over the past 15 years. The poorest fifth of Ohioans, who pay the largest share of their earnings in taxes of any income group, would see only modest gains; more than three-quarters of them would not see any reduction in taxes whatsoever from the House plan. So while the richest Ohioans would pay a good deal more, the plan would not reverse most of the tax shift to the poorest Ohioans that has taken place since 2005.

The federal Earned Income Tax Credit (EITC) is the nation's most powerful anti-poverty program. It goes only to working families. As helpful as the state EITC is, improved by the General Assembly in the transportation budget, it does not do enough to help the poorest Ohioans because it is not refundable. Adding a 10% refundable EITC would do more for the poorest Ohioans than the rate and bracket cuts in the House tax plan, while also leaving funds for needed investments.

Some other tax changes in the bill are not positive. The $50 million Opportunity Zone tax break is not good policy. The Opportunity Zone program is made up of deep federal subsidy for wealthy owners of capital gains. If the state wants to invest in Opportunity Zones, it should be through direct funding to help the low-income residents of these census tracts with better services and connection to good jobs.

The state will issue a half billion dollars in new business incentive tax credits over the course of the biennium and will carry $1.2 billion in tax credit liability going into the next biennium. By 2020, Ohio will forego almost $10 billion in tax breaks. These tax breaks are growing fast – by 18% since 2011 – but they are not scrutinized like budget expenditures are. The Tax Expenditure Review Committee was created to scrutinize spending through the tax code. It needs staff and resources to do a thorough examination of the state's 134 tax breaks. It would make sense to appropriate $530,000 a year, as the budget bill does in 2021 for the Joint Medicaid Oversight Committee.

TAX REVENUES SHOULD BE INVESTED IN OHIO

Ohio's ranking among states in overall health indicators is near the bottom and although there has been progress, Ohio remains among the worst for deaths due to the drug epidemic. Investment in children remains inadequate for childcare and early education, particularly as other states recognize the importance of investment in children and far outpace us. Our infant mortality rate is higher than 42 other states. College in Ohio remains prohibitively expensive: Ohio is ranked 45th highest in college costs with community colleges and public universities costing 11.5 percent and 14.5 percent more than the national average, respectively. Local governments throughout Ohio work with $1.5 billion less a year than they had in 2010, due to the state's elimination of tax authority, phase-out of tax reimbursements and cuts to revenue sharing.

We call for stable, predictable and sufficient tax revenues to support the investments Governor DeWine called for in the executive budget as well as changes in the House budget that strengthen critical services. More is needed, as noted in the box at the beginning of this testimony. The Ohio economy has changed. Poverty is higher now than before the recession. Six of our ten biggest occupational groups leave a parent with two kids eligible for and needing food assistance – up from four in ten in 2000. Too many Ohio families can't meet basic needs in housing, transportation, childcare, health care and food. Deeper investment can help these struggling families.

We call for stable, predictable and sufficient tax revenues to increase investment in opportunity for Ohioans and their children. State funding of Ohio's schools remains unconstitutional more than twenty years after the first court finding. The number of economically disadvantaged students in Ohio schools spiked by 67 percent since 2001, but funding increased by only 23 percent. The DeWine Student Wellness and Success plan is an important investment to help children affected by trauma, poverty and health and mental health challenges. We also need substantial increases in foundation funding itself, which supports classroom instruction.

If lawmakers want to significantly raise the share of Ohioans with a degree or certificate, they must boost investment in higher education. But according to the Center on Budget and Policy Priorities, Ohio's per-pupil spending on higher education was 18% lower in 2018 than in 2008, adjusted for inflation, a bigger decline in higher education investment than 23 other states. The high cost of Ohio's public colleges and universities won't come down unless the state restores its share of the cost of classroom instruction. The state share of instruction should be increased by 5% in FY 2020 and FY 2021 and indexed to inflation to ensure quality education and to shift the cost away from students.

We call for stable, predictable and sufficient state tax revenues to restore the fiscal partnership between state and local government. Between 2006 and 2018, local governments lost almost $1.5 billion each year, adjusted for inflation, through cuts in state aid and loss of local tax revenues reduced or eliminated by the state. Yet local governments remain responsible for so much: health and human service delivery, courts, public safety, domestic violence services, and many others.. Some relief is provided to counties in the budget bill – the increase in indigent legal defense is noteworthy - but flexible state funding that has historically supported local service delivery continues to erode in House Bill 166. This erosion should be stemmed and flexible revenue sharing restored.

Thank you for this opportunity to testify. I will be glad to take any questions.