

Revenue & Budget

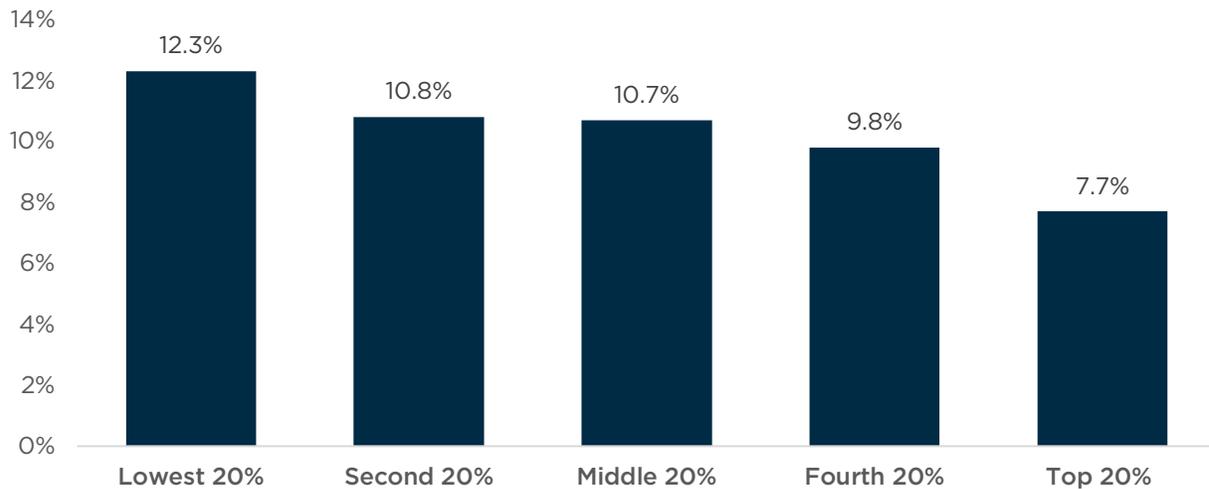
STATE TAX STRUCTURE CONTRIBUTES TO RACIAL INEQUITY

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Ohio’s upside-down tax system takes an especially heavy toll on black and Latinx¹ residents. That’s the finding of new research from the Institute on Taxation & Economic Policy (ITEP), a national nonprofit research group with a sophisticated model of the tax system. Cleaning up the state’s tax system so that it fairly distributes the tax load would reduce economic barriers facing black and Latinx Ohioans and generate revenue needed to invest in the building blocks of thriving local economies such as good schools and healthy residents.

ITEP found in the latest edition of its *Who Pays?* report that the poorest fifth of Ohioans, who make less than \$19,000 a year, on average pay nearly twice as much of their income in state and local taxes as the most affluent 1 percent of Ohioans, who make at least \$456,000 a year.² The bottom fifth also pay substantially more (12.3 percent) than the top fifth, who make at least \$92,000 a year and average \$198,400 (7.7 percent). Figure 1 shows these findings.

Figure 1
State and local taxes as a share of income



Source: Institute on Taxation & Economic Policy (ITEP), October 2018. Based on 2015 income levels and includes non-elderly Ohio residents. Chart shows fully phased-in law in Ohio enacted through September 10, 2018.

¹ Latinx is a gender-neutral term for people of Latin American origin or ancestry.

² Patton, Wendy, “Ohio state and local taxes hit poor and middle-income families the hardest,” Policy Matters Ohio, 10/17/18, at <https://bit.ly/2RctFJY> and Institute on Taxation and Economic Policy, “Who Pays? A Distributional Analysis of the Tax Systems in All 50 States,” Sixth Edition, October 2018, at <https://itep.org/whopays/>

Long after the end of slavery and the dismantling of many Jim Crow laws, structural barriers make it harder for African-Americans to make gains in today’s economy. Black Ohioans at the midpoint of the wage scale, or the median, earned just \$13.96 in 2017. That compared to \$18.57 for white workers, which translates into more than \$9,500 less each year with full-time year-round work – much of this is likely due to bias or discrimination.³ Racist housing policies drove Ohioans of color into high-poverty neighborhoods, cutting them off from good-paying jobs that are increasingly moving to the outer suburbs.⁴ Overly punitive and racially discriminatory criminal justice policies sent many primary breadwinners to prison for low-level drug offenses. When they returned, they found many employers refused to hire people with a criminal record.⁵

A new ITEP analysis shows that black and Latinx Ohioans are much more likely than whites to be among the poorest fifth of the population and thus face much higher tax rates than the richest fifth. For instance, ITEP found that 27 percent of blacks and 40 percent of Latinx Ohioans are in the poorest fifth, whose average total state and local taxes amounted to 12.3 percent of their income in 2018. Only 8 percent of black and 7 percent of Latinx Ohioans are in the top fifth of all earners, who averaged just a 7.7 percent tax rate. By contrast, as Table 1 shows, 18 percent of whites are in the poorest fifth and 22 percent are in the richest fifth. Ohioans of Asian descent are even more likely to be among the top income group, and less likely to be in the poorest fifth.

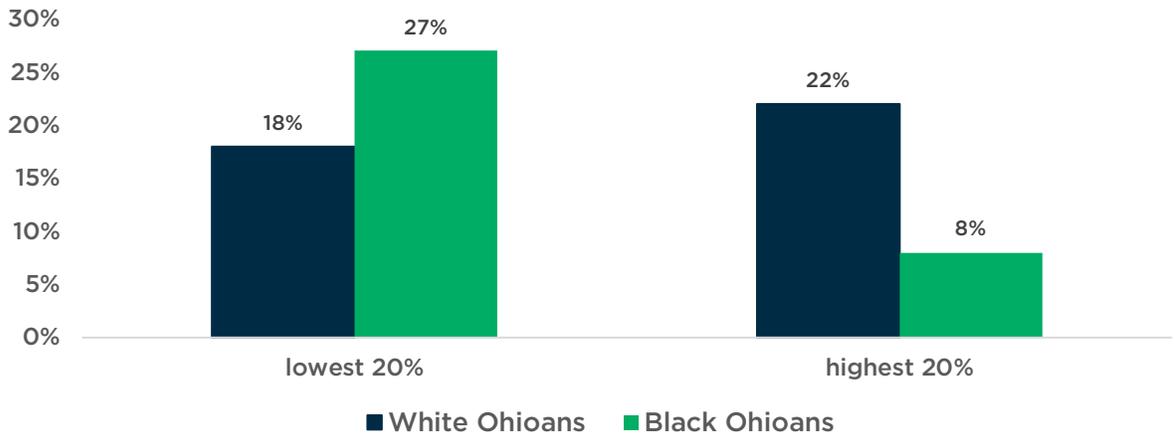
Table 1					
Distribution by race, Ohio income groups					
	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%
					\$92,000 or more
Income range	Less Than \$19,000	\$19,000-\$34,000	\$34,000-\$55,000	\$55,000-\$92,000	\$92,000 or more
Average income	\$11,200	\$26,500	\$44,100	\$71,700	\$198,400
White	18%	19%	20%	20%	22%
Black	27%	28%	19%	15%	8%
Asian	11%	7%	18%	30%	33%
Latinx	40%	21%	19%	11%	7%

Source: ITEP, October 2018. Shown at 2015 income levels for nonelderly Ohio residents. All Hispanics have been shown under Latinx. Altogether, whites account for 83 percent of Ohio tax returns; African-Americans, 10 percent; Latinx, 3 percent; Asians, 2 percent; and other racial groups, 2 percent. Other racial groups are not in the table due to small sample size. ITEP assigned race and ethnicity to each taxpayer in its tax microsimulation model using sophisticated regressions based on detailed demographic analyses from the Census Bureau.

Figure 2 shows how white Ohioans are far more likely than black people to be in the top fifth, whose average state and local taxes are below those lower on the income scale. Conversely, black Ohioans are more likely to be in the bottom 20 percent, whose average taxes are higher:

³ Hanauer, Amy, “State of working Ohio, 2018: Inequality amid job growth” Policy Matters Ohio, 9/2/18, at <https://bit.ly/2CPlk7g>
⁴ Woodrum, Amanda “Building a healthy Ohio,” Policy Matters Ohio, Nov. 19, 2018, at <https://bit.ly/2KfAoMp>
⁵ Shields, Michael and Pamela Thurston, “Wasted assets: The cost of excluding Ohioans with a record from work” 12/18/18 at <https://bit.ly/2Rfqukw>

Figure 2
Ohio's upside-down tax code hurts more black Ohioans, helps more whites
 Share of black and white Ohioans in lowest 20% and highest 20% of earnings



Source: Institute on Taxation & Economic Policy (ITEP), October 2018. Based on 2015 income levels and includes non-elderly Ohio residents. Chart shows fully phased-in law in Ohio enacted through September 10, 2018.

This new data underscores the need for an overhaul of Ohio's state and local tax system.⁶ A good place to start is boosting the income tax on the state's top earners. Policy Matters' income-tax proposal would restore the top income-tax rate first approved under Governor George Voinovich, while adding a new, higher rate for those making over \$500,000.⁷ It also would repeal the LLC loophole, a deduction on business income that especially advantages affluent Ohioans and has not significantly boosted the state's economy. Finally, it would strengthen the state Earned Income Tax Credit, which helps only a fraction of the poorest working Ohioans because it is not refundable.⁸ All these steps would help turn our tax system right side up, and reduce its lopsided impact on African-American and Latinx Ohioans.

⁶ The racial inequity in Ohio's tax system is hardly unique. Tax policies in many states have contributed to the racial wealth gap—white households, which comprise 65 percent of all households, own 87 percent of the nation's wealth. See Michael Leachman, Michael Mitchell, Nicholas Johnson and Erica Williams, "Advancing Racial Equity with State Tax Policy," Center on Budget and Policy Priorities, Nov. 15, 2018, at <https://bit.ly/2K7xB7W>. The 2017 federal tax law also increased the racial wealth gap. See ITEP's "Race, Wealth and Taxes: How the Tax Cuts and Jobs Act Supercharges the Racial Wealth Divide," 10/11/18, at <https://bit.ly/2RaLTLV>

⁷ See Schiller, Zach and Wendy Patton, "Overhaul: A Plan to Rebalance Ohio's Income Tax," Policy Matters Ohio, 6/25/18, at <https://bit.ly/2Q7MHwu>

⁸ Halbert, Hannah, "Refundable Credits for Working Families Put Kids First," Policy Matters, 9/9/18, at <https://bit.ly/2DRKBxm>