



# POLICY BRIEF

April 2024

## Four tax policies for the people

Ohio's tax code can work for all of us

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This Tax Day, let us take a moment to reflect on Ohio's tax system. Taxes are a vital part of any thriving society: They finance key public goods that benefit everyone and the investments we make with our tax dollars reflect our collective values. We recognize the importance of public education by funding schools; public safety by funding our firefighters; and vibrant communities by funding parks, libraries, and protections for our water, air, and soil.

How we generate tax revenue is perhaps just as important as how we spend it. We can employ progressive forms of taxation with a strong income tax that has the wealthy pay their fair share. Alternatively, we can depend on regressive forms of taxation that require those with less to pay a greater share of their income in taxes. Ohio's policymakers have taken the state down the latter path, creating one of the most inequitable state tax systems in the country.<sup>1</sup> This policy choice has forced us to underfund vital government services, locking Ohioans into an economy that uses their labor to create wealth for the already wealthy.

Our legislators must correct course. They must adopt legislation that will provide targeted relief to Ohioans who actually need it and create a more equitable tax system. Policy Matters highlights four such policies this Tax Day — spanning the personal income tax, sales and use tax, and property tax — that would put money back into the pockets of Ohioans who need it:

- A Thriving Families Tax Credit (TFTC) to put more money in the pockets of low- and moderate-income families with kids.
- A refundable Earned Income Tax Credit (EITC) to do the same for people in low-paid jobs, whether or not they have dependents.
- A property tax circuit breaker for renters and homeowners of all ages who need relief from tax bills.

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<sup>1</sup> "Who Pays? 7<sup>th</sup> Edition" Carl Davis and staff. ITEP. January 2024. In Ohio, the bottom 20% of earners pay more than double their share of income in taxes when compared to the top 1% of earners. The bottom 20% of earners pay on average 12.7% of their income in taxes, while the top pay just 6.3%.



- A sales tax credit that will offset the regressive nature of our sales tax for Ohioans with lower incomes.

Any of these measures would help rebalance our tax system while providing much-needed support. Combined, they could recenter Ohio’s tax policy on the working families who keep our state’s economy running.

## Income tax proposals

Over the last two decades, Ohio lawmakers have been gradually eroding the state personal income tax. In tax year 2004, Ohio’s income tax had nine graduated tax brackets, with a top marginal rate of 7.5% on income over \$200,000 (\$333,000 in today’s dollars).<sup>2</sup> For tax year 2023, the personal income tax will only have three brackets and a top marginal rate of 3.75% on incomes above \$115,300, with further cuts to come next year.<sup>3</sup> The overwhelming benefit of these tax cuts went to wealthy, while Ohioans with the lowest 60% of earnings are actually seeing higher tax bills on average, including other major tax changes such as higher sales taxes.<sup>4</sup> This shift in tax responsibility serves high-income Ohioans and forces cuts to the public services that benefit everyone.

Ohio has the resources to do better. Policy Matters Ohio has previously detailed a slew of measures to raise revenue for the public good from people and corporations that can afford to pay. These include boosting the income tax on the highest earners, reinstating a corporate income tax, and slashing a host of unproductive special-interest tax breaks — most notably the provision that allows most business owners to avoid the income tax on the first \$250,000 in business income.<sup>5</sup>

By requiring those who can afford it to pay a little more, we create space for changes that benefit people who could use a little help. Instead of collapsing brackets and cutting rates broadly — which mostly benefits the wealthiest Ohioans — lawmakers can provide targeted tax relief using targeted income tax credits. A TFTC would provide a state child tax credit for low and moderate-earning Ohio families with children. Legislation to this effect has been introduced in the Ohio General Assembly as HB 290.<sup>6</sup> Additionally, lawmakers should expand Ohio’s current EITC to be partially refundable to ensure more Ohioans can take advantage of the credit.

## Thriving Families Tax Credit

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<sup>2</sup> “[Ohio Income Tax Rate Tables for Calendar Years 1972-2010](#).” Ohio Department of Taxation. December 2010.

<sup>3</sup> “[Ohio Individual Income Tax Rates](#).” Ohio Department of Taxation.

<sup>4</sup> “[The Great Ohio Tax Shift, 2022](#).” Guillermo Bervejillo. Policy Matters Ohio. February 10, 2022. This report understates the shift, since it does not include last year’s tax changes.

<sup>5</sup> See “[Setting the foundations for a thriving Ohio with a proactive tax agenda](#).” Guillermo Bervejillo and Zach Schiller. Policy Matters Ohio. January 5, 2023. Also see Table 1 of “[Protect essential services with public resources](#).” Wendy Patton. July 7, 2020.

<sup>6</sup> [Ohio House Bill 920](#). Introduced by Rep. Casey Weinstein and Rep. Lauren McNally on October 3, 2023.



The TFTC included in HB 290 would offer eligible Ohioans a refundable credit of \$1,000 per year for children ages 0-5, and a credit of \$500 per year for children ages 6-17. Families making up to \$65,000 would receive the full value of the credit. The credit would begin to phase out for families making above \$65,000 until it completes the phase-out at \$85,000.

According to modeling from the Institute on Taxation and Economic Policy (ITEP), a Washington, D.C. based nonprofit with a sophisticated model of the state and local tax system, more than 1.4 million children, about 60% of the children in Ohio, live in households that would be eligible for at least a portion of the TFTC.<sup>7</sup> Eligible families would see their tax bills drop by \$1,006 on average. These tax savings are even higher for taxpayers in the lowest-income 20%. Ohioans who get the credit in that group — those making less than \$26,000 per year — would get an average tax cut of \$1,114. Most of the tax credits would go to low- and moderate-income tax filers, and 97% of the total value of the TFTC would go to the bottom 80% of income earners. Standing in stark contrast to the income tax cuts in last year's budget bill, the TFTC would provide a true tax cut to Ohio's working-class families.<sup>8</sup>

HB 290 also would make progress in the fight against racial inequality.<sup>9</sup> In Ohio, Black and Hispanic families are overrepresented in the bottom 20% of earners.<sup>10</sup> Overall, Black and Hispanic families make up 13.1% and 3.5% of Ohio's population, respectively. However, among the bottom 20% of earners in the state, 20.3% of families are Black and 5.2% of families are Hispanic. In the bottom 20% of earners alone, roughly 135,000 Black and Hispanic children would benefit from the TFTC. In all, 83.7% of Black families and 79% of Hispanic families would receive at least some tax relief from the TFTC.

## Refundable Earned Income Tax Credit

The General Assembly could provide further tax relief for working-class Ohioans by reforming the state's Earned Income Tax Credit. Ohio's current EITC is set at 30% of the value of the federal EITC, but it is not refundable. As a result, individuals and families with little taxable income miss out on the full benefit of the EITC, even though as a group they pay a larger share of their income in state and local taxes than the wealthiest do. Adding a 10% refundable option to the EITC would put Ohio in step with the growing national trend: 27 states, D.C., and Puerto Rico already have refundable EITCs; only four other states have

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<sup>7</sup> Tax Policy for the People Report. <https://www.policymattersohio.org/research-policy/quality-ohio/revenue-budget/tax-policy/tax-policy-for-the-people>

<sup>8</sup> "Summary of Income Tax Changes in the 2024-25 Budget." Zach Schiller. Policy Matters Ohio. July 2023.

<sup>9</sup> "Tax Policy for the People." Bailey Williams. Policy Matters Ohio. November 9, 2023.

<sup>10</sup> Hispanic is the term used by the U.S. Census Bureau to describe people of Spanish-speaking origin or ancestry, but not their race. The grouping is not a perfect match for populations described by terms such as "Latine" or "Latinx," though in many cases it can be used as a proxy. For more information see "[Who is Hispanic?](#)" Mark Hugo Lopez, Jens Manuel Krogstad, and Jeffrey S. Passel. Pew Research Center. September 5, 2023.



nonrefundable EITCs.<sup>11</sup> This would also allow individuals a choice in how they receive the credit: Tax filers could choose which option would be of greater value to them between the 30% nonrefundable option or receiving a refundable credit equal to 10% of the federal EITC.

Roughly 1.9 million Ohioans, including over 700,000 children, would see a tax cut thanks to a refundable EITC. Those who qualify for the credit would see a \$258 tax cut on average, according to ITEP modeling. This form of tax relief is also highly targeted: 99% of the total value would go to the bottom 80% of Ohio earners. By contrast, 99% the value of Ohio's most recent income tax cuts — which are worth more than \$750 million — went to the highest-income 40% of households, while a family of three making the median income in the state saw a slight tax increase.<sup>12</sup>

A refundable option to Ohio's EITC would also make strides on racial inequality. Based on ITEP's analysis, Black Ohioans who qualify will see an average tax cut of \$277, while Hispanic Ohioans would see a \$315 tax cut on average. Both groups would see higher-than-average tax cuts since they are both overrepresented among Ohio's lowest-income 40%.<sup>13</sup>

## Property tax proposal

Ohio's property tax system is getting new attention. Increased valuations of homes across the state<sup>14</sup> and gentrification in formerly depressed areas<sup>15</sup> are two factors leading to a host of new proposals to limit such taxes.<sup>16</sup> Despite significant existing protection in Ohio's constitution against rising property taxes,<sup>17</sup> some are not insulated from spikes in taxes due. Unlike the state income tax, which is based on the ability to pay, the property tax is disconnected from income. According to the ITEP, the poorest fifth of Ohio homeowners and tenants pay more than triple the share of income in property taxes that the richest 1% do.<sup>18</sup>

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<sup>11</sup> ["States Can Enact or Expand Child Tax Credits and Earned Income Tax Credits to Build Equitable, Inclusive Communities and Economies."](#) Samantha Waxman and Iris Hinh. Center on Budget and Policy Priorities. March 3, 2023.

<sup>12</sup> ["Tax Policy for the People."](#)

<sup>13</sup> *Id.*

<sup>14</sup> ["Understanding your property taxes: Ohio lawmakers propose changes as home values rise."](#) Anna Staver. Cincinnati Enquirer. Aug. 30, 2023. Policy Matters also reviewed data received from the Ohio Department of Taxation, Sept. 12, 2023, confirming the increases.

<sup>15</sup> ["Longtime homeowners, advocates seek relief from property-tax squeeze."](#) Michelle Jarboe. Crain's Cleveland Business, June 17, 2022.

<sup>16</sup> ["Ohio needs a property tax circuit breaker."](#) Zach Schiller. Policy Matters. January 10, 2024.

<sup>17</sup> In many instances, a big increase in property value doesn't mean a big increase in property taxes. Scott Wartman explains in ["Will my rising property assessment mean my taxes will go up? What to know."](#) Cincinnati Enquirer, Oct. 26, 2023.

<sup>18</sup> Email from Carl Davis, Institute on Taxation and Economic Policy, Dec. 21, 2023. While the bottom 20% pay 3.1% of their income, the top 1% pays just 0.8%. Figures exclude senior households. In a report last year, ITEP explained, "The main reason property taxes are regressive is that home values are much higher, as a share of income, for low-income families than for the wealthy. Making matters worse, home values are often mismeasured, for property tax purposes, in ways that exaggerate this fundamental fact. Specifically, homes owned by lower-income people and people of color tend to be over-assessed relative to those owned by high-income people." Carl Davis and Brakeysha Samms, ["Preventing an Overload: How Property Tax Circuit Breakers Promote Housing Affordability."](#) May 11, 2023.



Any property tax relief should be inclusive of both homeowners and renters, and targeted to those who need it. The relief measure must also consider the needs of entities that rely on property taxes, such as schools, parks, and libraries. The best policy to balance these interests is a property tax circuit breaker.

## Circuit breaker

Like an electrical circuit breaker, which prevents electric current from overloading, a property tax circuit breaker reduces the load if property taxes are too high a share of income. The typical property tax circuit breaker works like this: A qualifying household pays property taxes up to a threshold percentage of income. If the household's property tax bill exceeds this limit, the state picks up all or a portion of the tax payments made above it. The process protects crucial property tax revenue for public schools and county human services: Homeowners pay the property tax to local governments in full, then receive partial reimbursement from the state, either directly as a refund or as a refundable income tax credit.

Seventeen states, including Ohio neighbors Michigan and West Virginia, and the District of Columbia offer circuit breakers with varying thresholds for triggering the income-tax credit or refund.<sup>19</sup> Another dozen states, including Pennsylvania, offer other forms of property tax relief as income declines. These programs, which some also call circuit breakers, set up various income brackets and offer the same dollar or percentage reduction in taxes to everyone in that bracket.<sup>20</sup> The flexibility of the circuit breaker shows its true value, as lawmakers can consider what restrictions to place on it, such as income limits, limits on housing value or rent, or a phase-out of the credit. Most of all, it needs to be structured so it can make a real difference for those who need it.<sup>21</sup>

## Sales tax proposal

A key factor driving Ohio's inequitable tax system is the state's overreliance on regressive forms of taxation, like the Sales and Use Tax, for revenue. Regressive taxes impose a higher effective rate on those with less resources. As your income increases, your effective tax rate decreases. Simply put, the rich pay less of their income than the rest. This is true of the sales tax especially because lower-income residents spend a greater share of their income

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<sup>19</sup> The description of circuit breakers and other property tax relief programs here draws heavily on the paper from ITEP's Carl Davis and Brakeyshia Samms, "[Preventing an Overload: How Property Tax Circuit Breakers Promote Housing Affordability](#)," May 11, 2023; and Langley, Adam H. and Joan Youngman, Lincoln Institute of Land Policy, "[Property Tax Relief for Homeowners](#)," November 2021, p. 39.

<sup>20</sup> For a comparison of state programs, see the Lincoln Institute of Land Policy's [Summary Table of Property Tax Circuit Breakers](#). While some changes have occurred since 2018, it provides a sense for the variety of parameters states use. A number of localities also have circuit breakers.

<sup>21</sup> "[Ohio needs a property tax circuit breaker](#)." Using modeling provided by ITEP, Policy Matters Ohio proposed two possible circuit breakers to provide property tax relief. One proposal was a simple version that provides relief once property taxes exceed 5% of taxpayer's income for those making up to \$60,000. The other proposal has tiered thresholds that increase with income. There is a 3% circuit breaker for those with incomes below \$20,000, a 4% threshold for incomes between \$20,001 and \$40,000, and a 5% threshold for incomes between \$40,001 and the cap of \$60,000.



than higher-income residents do. Ohio levies a 5.75% tax on the sale and use of goods, as well as the sale of specifically enumerated services.<sup>22</sup>

In fiscal year 2023, the revenue from the sales tax accounted for 45.6% of all revenue collected into the General Revenue Fund by the state.<sup>23</sup> For comparison, in fiscal year 2003, the revenue from the sales tax equaled 36.8% of GRF revenue.<sup>24</sup> The catalyst for this change was twenty years of major cuts to the state personal income tax coupled with increases to the sales tax. The result of these policy changes is lower earning Ohioans paying more of their income in taxes while the wealthy pay less. According to ITEP, the lowest earning Ohioans on average see 7.2% of their income going towards paying sales tax, versus a meager 1.1% for the top 1%.<sup>25</sup> To offset the regressive nature of the sales tax, Ohio should implement a sales tax credit.

### Sales tax credit

Enacting a refundable sales tax credit for these Ohioans would provide targeted tax relief to those who need it most. The credit would be an income-tax reduction of a set amount. Phasing out the credit as income rises would ensure relief goes to individuals who need it, keeping the overall cost of the credit down by having those who can afford it pay their fair share. This strikes a balance between providing tax relief and keeping the tax base broad as possible.

The credit can be flexible in how it is designed, with lawmakers able to determine the credit's value, if factors like family size should influence the credit's value, and phase-out levels or caps. A credit for lower-paid Ohioans is a better form of tax relief than other approaches like sales tax holidays. Policy Matters has previously noted both conservative and liberal policy groups pan the idea of sales tax holidays.<sup>26</sup> These holidays do not provide substantive relief to those who need it, who are not likely to have sizeable amounts of disposable income take advantage of the holiday. In fact, wealthier individuals are likely to benefit the most, even though they do not need relief, since they have the financial flexibility to maximize their benefit of the holiday. Despite this, the General Assembly expanded the current holiday in the last budget bill, which will cost the state up to \$750 million annually.

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<sup>22</sup> ["Ohio State Sales and Use Tax Rate."](#) Ohio Department of Taxation. Note: Counties may levy up to an additional 2% sales tax for their own revenue. All 88 counties in Ohio levy a sales tax with rates between .75% and 2%.

<sup>23</sup> ["Annual Report Fiscal Year 2023."](#) Patricia Harris, Tax Commissioner. Ohio Department of Taxation. March 2024.

<sup>24</sup> ["Annual Report Fiscal Year 2003"](#) Thomas M. Zaino, Tax Commissioner. Ohio Department of Taxation. October 31, 2003.

<sup>25</sup> ["Who Pays? 7<sup>th</sup> Edition"](#)

<sup>26</sup> ["Don't believe the 'holiday' hype."](#) Zach Schiller. Policy Matters Ohio. June 22, 2023.



At least six states have some form of a sales tax credit or rebate, with four of these states using the credit to offset the cost of sales tax on groceries.<sup>27</sup> The other two states, New Mexico and Arizona, do not tax groceries and instead provide the credit to offset local and state sales taxes.<sup>28</sup> New Mexico's Low Income Comprehensive Tax Rebate was initially created with the sales tax on groceries in mind, but the state has since eliminated the tax on groceries while still keeping the rebate.<sup>29</sup> This is the path Ohio should follow. While Ohio is one of several states that exempts groceries from the sales tax, lower-paid Ohioans still need relief.<sup>30</sup> Low-income Ohioans pay sales taxes on everyday essentials such as toiletries and clothing. The best solution for targeted tax relief that still protects necessary revenue comes in the form of a sales tax credit.

## Conclusion

This Tax Day, Ohioans should take the time to reflect on our state's tax system. Our system is upside-down, with lawmakers asking those with less to pay more while the wealthiest pay less and less in taxes. As a result, our public goods and services have been hamstrung, limiting our state from reaching its fullest potential. It is beyond time our lawmakers change paths. The General Assembly can take the first course-correcting step in considering the four policies proposed by Policy Matters Ohio. The enactment of any of these recommendations would make progress in creating a more equitable tax system while providing vital tax relief.

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<sup>27</sup> ["States Can Thoughtfully Implement Grocery Tax Reforms to Help Families and Improve Equity."](#) Eric Figueroa and Iris Hinh. Center on Budget and Policy Priorities. February 3, 2022.

<sup>28</sup> ["New Mexico Low-Income Comprehensive Tax Rebate."](#) & ["Tax Credit Against Increased Excise Taxes"](#) Arizona Department of Revenue.

<sup>29</sup> ["Food Tax Repeal."](#) Think New Mexico.

<sup>30</sup> ["Everyday Purchases."](#) Ohio Department of Taxation.