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. Thank you for the opportunity to testify.

Governor DeWine said it is time to invest in Ohio. We agree. The executive budget included new funding for schools, child protective services and measures to reduce the state's high rate of infant mortality and stem the drug epidemic. The House added investments, and in some areas, such as aid to higher education and funding for foodbanks, the Senate is doing more. These are positive steps. But more are needed – and for that, more resources, not tax cuts, are the answer.

TAX POLICY

Ohio doesn't need more across-the-board tax cuts. The Senate budget plan to reduce the state income tax by another 8% continues income tax cuts that flow mostly to the affluent. This economic policy has been tried since 2005 and has failed to improve Ohio's standing. Ohio still lags the nation in job creation. The budget director outlined in her Finance Committee testimony how the forecast used in developing the administration budget proposal shows that Ohio will continue to trail behind the United States in output, personal income, nonfarm employment, and other measures.

The rate and bracket cuts should be scrapped in favor of a refundable Earned Income Tax Credit (EITC) and needed investments. The Senate takes one positive step on what is often known as the LLC Loophole by partly eliminating the 3% tax rate that the wealthiest business owners pay. But that needs modification, and the General Assembly should also prevent business owners from earning up to $250,000 tax free, by adopting the House plan that restores taxes on anyone with business income over $100,000.

Since this tax break was adopted in 2013, first-time hiring by new businesses has not increased. Growth of new businesses and small business jobs and payroll continue to lag behind the nation. The results are in: This tax break does not rev up small business or Ohio's larger economy, and it's costing dollars that are badly needed to invest in education and public services. It should be repealed, but short of that, you should embrace the House plan to reduce it.

The move to eliminate the 3% rate business owners currently pay on income over $250,000 is a welcome development, as it will require the wealthiest business owners to pay the same rates as others. However, this needs to be modified so it does not favor some of these taxpayers with an additional rate cut. This provision doesn't work the way you might think; it doesn't mean that these taxpayers are paying the top rate on all of this income, like others with income over $250,000. In fact, for many, it will be a rate cut. That's because someone with business income of $300,000 will still get the $250,000 deduction – and then will pay on the remaining $50,000 as if they have no other income. Such a taxpayer would pay far less in 2020 and beyond under the bill than if they were taxed at the top rate on this income, as they should be.

The Senate bill takes appropriate steps in adding Ohio to the growing ranks of states that require online and catalogue retailers to collect the sales tax as the U.S. Supreme Court allowed last year. Including marketplace facilitators is a crucial element, though changes in language from the House bill require more study. These steps will help level the 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 phases out some unneeded tax breaks such as the sales-tax break for time shares in jet aircraft, and improves on the House bill by omitting changes in the passthrough entity tax, language that could result in a tax cut for Uber and Lyft, unproductive reductions in local property taxes and creation of some other new tax breaks.

However, 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. Retaining the sales-tax exemption for investment coins and the movie tax credit likewise will sap state revenue better spent elsewhere, though ending the transferability of the movie tax credit, and improving the award of the subsidy, are good steps.

Ohio needs to provide staff for the Tax Expenditure Review Committee to allow for a thorough examination of tax breaks and cut back special-interest credits and exemptions. However, the Senate bill also expands some of these tax breaks. The Job Retention Tax Credit, originally designed to keep the very biggest employers in Ohio, should not be weakened to eliminate employment requirements. High-income executives should pay municipal income tax on their big-ticket retirement plans.

Adding a 10% refundable EITC would do more for the poorest Ohioans than the rate and bracket cuts in the Senate tax plan. 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 because it is a graduated tax, and other elements of it like the $10,500 threshold, personal exemptions and the state Earned Income Tax Credit wipe out all or most tax liability for many of the poorest taxpayers. The EITC goes only to working families. But 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. That should be remedied.

INVESTMENT POLICY

Significant needs for investment remain unmet. Poverty in Ohio remains higher than before the recession. Six in ten of our most common jobs leave a parent with two kids eligible for and needing SNAP food aid to put dinner on the table, up from four in ten in 2000. Health indicators in Ohio are woefully low. Even with the provisions in the Senate bill, local governments will be receiving far less in flexible state aid than they did a decade ago, constraining them from delivering services. And Ohio remains an undereducated state, with a school funding formula in need of a fundamental overhaul and colleges that remain unaffordable to far too many. We highlight a handful of specific unmet needs below.

Access to child care assistance: Governor DeWine committed to raising the initial level at which people can get public child care aid in Ohio from the next-to-lowest in the nation. An increase in the eligibility rate is not included in this budget bill, and it should be. Ohio admits only families earning no more than 130% of poverty - about $27,000 for a parent with two kids – to the program. It should be restored to 200% of poverty: $42,660 for a family of this size.

Census education and outreach: Ohio could lose federal funding – as well as congressional representation – from a lack of funding for outreach and education around the upcoming decennial census. As many as 73,600 Ohioans won't be counted in the 2020 Census if we don't fund outreach to hard-to-count households, resulting in Ohio losing one of its 16 congressional seats and losing an estimated $88.7 million per year for a full decade (over $887 million). State funding of $1.1 million would allow communities to reach our hard-to-count households so they are included in the count.

Wage and Hour Division of the Ohio Department of Commerce: Today, just five investigators and one supervisor oversee wage theft enforcement for Ohio's more-than 5.5 million jobs. That means Ohio has one investigator for every 932,367 workers. Under the initial budget proposal funding was cut by $100,000 over the biennium. The House restored this funding, ensuring $1.2 million for wage enforcement in each year of the biennium. The Senate budget bill removes the House's fix. Without this funding, Ohio will spend 36.7% less on wage enforcement in 2021 than it did in 2010, adjusted for inflation. More is needed but holding funding steady is essential. The Senate should restore this funding.

SNAP E&T program: An annual allocation of $4 million would draw down matching federal funds through the SNAP Employment and Training program, known as SNAP E&T. This investment would dramatically increase capacity to provide training to the thousands of low-wage people who are eligible for, and rely on, Medicaid and food aid.

Affordable housing: Stable housing provides a foundation for economic security. When children have access to stable housing, they have better health, perform better at school, and have more economic opportunity. The recession took a significant toll on revenue for the Ohio Housing Trust Fund, the principal state source of funding for affordable housing, decreasing it from $73 million in fiscal year 2005 to $45 million in fiscal year 2018. The Trust Fund receives a share of the fee collected by county recorders on property and mortgage transactions. The fee needs to be increased to expand access to safe, stable, affordable housing.

Evidence-based home visiting: Evidence-based home visiting leads to improved birth outcomes, improved academic performance and kindergarten readiness for children, reduced parental stress, and increased parental understanding of their child's development. Funding for Help Me Grow was decreased by $20 million over the biennium in the Senate sub bill. This critical strategy to improve infant mortality rates and improve educational outcomes needs to be restored.

Children's mental health: Too many of Ohio's children struggle with mental illness, trauma, and depression. The Senate eliminated $18.0 million that was intended to support K-12 mental health and addiction prevention and education initiatives. We ask you to restore this funding to ensure that children struggling with these challenges get the treatment they need to recover and thrive.

Unemployment compensation: The Senate bill would extend for another three years provisions expiring in January that freeze maximum unemployment compensation benefits and temporarily raise the wage base that employers are taxed on. This does not represent an equal sacrifice; each year that the freeze continues, more workers are affected, and the amount of the benefit cut grows. As a result, by 2022, workers are losing much more in benefits than employers are paying in additional taxes. An extension of these provisions for a year, through calendar year 2020, would be more reasonable.

Protecting Medicaid: The expansion of Medicaid to low-income adults has improved lives, stabilized families, strengthened Ohio's health care system and created 54,000 jobs in the Ohio economy. The so-called "Healthy Ohio" plan that emerged briefly in the House budget bill would reverse this progress. It would impose premiums that discourage people from enrolling in health care and remaining enrolled. It would offer non-elderly adults who can pay premiums a set of health services that may be like services offered today, but provide inferior services for those who can't pay or miss paperwork deadlines. As proposed, this plan will take state services like oxygen, prescription drug coverage and dental care from hundreds of thousands who can't regularly pay their premium – just as we saw happen in Indiana, where a similar plan was implemented. It is estimated more than one hundred thousand will drop out of the system or not enroll. The administration is complex and will be costly. This plan, or others that throw up barriers to care, should not emerge at the 11th hour in the Senate budget deliberations, as it did in the House.

K-12 education: The Senate bill maintains Governor DeWine's $550 million investment in the Student Wellness and Success initiative for wraparound services at all public schools, but it takes out the $125 million the House added. Instead, there is a slight increase in foundation funding; districts with growing student populations get an additional $37 million, and the EdChoice Expansion voucher is increased by 107.4% - despite voucher students performing worse than their higher-income peers who stay in public school. The Senate should reverse new investment in the EdChoice Expansion and instead allocate these funds to districts equitably based on the needs of students in each district.

Higher education: The Senate bill increases the Ohio College Opportunity Grant (OCOG), the state's only need-based education grant by 34.8% over the last biennium. This is a step in the right direction, but OCOG policy needs to change to reflect that living expenses are a nonnegotiable cost of going to college. Making that policy change would expand access to OCOG for community college and regional campus students and increase it for Central State University students, who receive less OCOG than their peers at other public universities. The Senate budget bill slightly increases State Share of Instruction (SSI), the main source of funding for public colleges, but not enough to prevent erosion by inflation. SSI should be increased by at least 5 percent each year of the budget and indexed to inflation.

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