# EXECUTIVE SUMMARY
MAY 2019

Revenue & Budget

## THE GOOD AND THE BAD IN THE HOUSE BUDGET

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The tax plan approved by the Ohio House last week would sharply limit an income-tax break for business owners that costs more than $1 billion a year while providing few benefits to the Ohio economy.[1] At the same time, it would eliminate the bottom two brackets of the income tax and cut rates by 6.6%. This report examines the effect of these changes on Ohioans of different income levels. The tax cuts would go mostly to those with higher than average incomes, with only a relatively small amount going to the lowest-income Ohioans. In dollar terms, those benefitting the most under the House plan on average had already gained from the state's tax changes over the past 15 years. The poorest fifth of Ohioans, who pay the largest share of their income in taxes of any income group, would see only modest gains; more than three-quarters of them would not see any reduction in taxes. So while the richest Ohioans would pay a more, a step in the direction of fairness, the plan would not reverse most of the tax shift to the poorest Ohioans that has taken place since 2005.

### Key findings: The House Budget tax plan shrinks an unproductive tax break, but could do more to help the poorest Ohioans

- The House plan would shrink the LLC Loophole, a costly tax break that hasn't been shown to help the state's economy. Most of the tax increase would be paid by the top 1%, those who make over $496,000 a year.
- Income tax rate cuts and the elimination of two income tax brackets will mostly benefit Ohioans with higher-than-average earnings. Only 24% of the poorest fifth of Ohioans benefit.
- A refundable state Earned Income Tax Credit worth 10% of the federal credit will do more than the House tax plan to help Ohio's poorest residents. More struggling Ohioans will save on their taxes and their average savings will be higher than under the House proposal.
- Instead of cutting taxes and eliminating brackets, resulting in tax cuts most Ohioans will hardly notice, the state legislature could use the proceeds to invest in education and other essential services

These conclusions are based on an analysis of the tax changes for Policy Matters Ohio by 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.

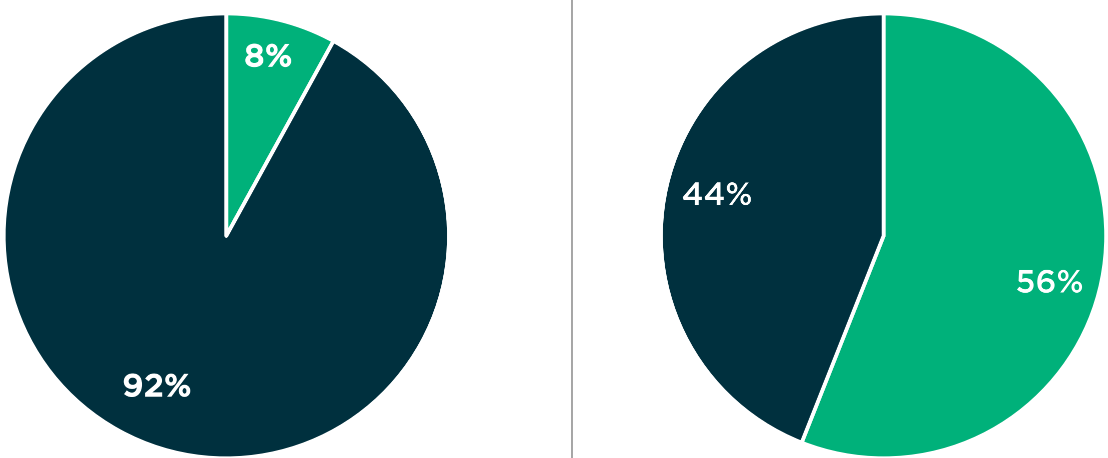
By contrast, if some of the proceeds from cutting the business income deduction were used instead to add a refundable 10% Earned Income Tax Credit (EITC), more working low-income Ohioans would benefit and those who did would benefit more. ITEP estimates this would cost about $170 million a year. The rest of the $528 million total that would be generated by

[1] Schiller, Zach and Wendy Patton, "Overhaul: A Plan to Rebalance Ohio's Income Tax," Policy Matters Ohio, June 26, 2018, at https://www.policymattersohio.org/press-room/2018/06/26/overhaul-a-plan-to-rebalance-ohios-income-tax

limiting the business income deduction, often known as the LLC loophole, would be better spent investing in essentials like child care and aid to foodbanks.

**A refundable EITC does a better job of helping Ohioans who need it most**

| Share of total tax cut under the House tax plan | Share of total tax cut with a refundable 10% EITC |
| --- | --- |




Ohioans making less than 24,000 a year (the bottom fifth of earners)
Everyone else

*Source: Institute on Taxation and Economic Policy, May, 2019. Ohio residents only.*

## Recommendations

Under the House bill, the most of the top 1% of Ohio earners, who average earnings of more than $1.2 million a year, see a tax increase. The revenues are spread so that most Ohioans who receive a tax cut will hardly notice it. Most of the poorest Ohioans get no benefit from it at all. The General Assembly should approve the changes in the LLC Loophole in the House tax plan, but use them for a different purpose: Providing more meaningful tax cuts to the poorest Ohioans, and investing in services we need.