

Tax & Budget

Testimony on HB 166 before the House Finance Committee

Wendy Patton

Good morning, Chairman Oelslager, Vice-chair Scherer, Ranking Member Cera 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. We are glad to see the business income tax break limited in the Substitute House Bill 166. The reductions in income-tax brackets and rates will help some families, but will not significantly benefit many of the poorest Ohioans. This group pays nearly twice the share of their income in state and local taxes as the wealthiest 1 percent because of sales, excise and property taxes, which weigh more heavily on the less affluent. Rather than using the proceeds of the changes in tax breaks to cut brackets and rates, they should be used to make the state earned income tax credit refundable and to support investments in education, child care, public transit and other necessities.

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 childcare 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 by \$10 million a year.
- Rebuild revenue sharing with Ohio's local governments. Start with restoration of the Local Government Fund's municipal distribution.
- 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 Ohio's system of public higher education is not eroded by inflation again.
- Boost need based aid - the Ohio College Opportunity Grant - by an additional \$106 million annually. Use it to support students at community and regional campuses as well as 4-year schools.
- Fully fund the Ohio's foodbanks request for an additional \$10 million a year in food aid.
- Fund the voluntary SNAP E&T program at \$4 million a year to draw down matching federal funds for job training to ensure all people who need food aid get that aid, and meet work requirements with training for a better future.

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 brought an increase in first-time hiring by new businesses, while 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 to 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.

However, using the proceeds of these welcome changes to cut income-tax brackets and rates will do little for many 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. First, this is because it is a graduated tax. It is also because the existing \$10,500 threshold for paying the tax, plus personal exemptions and the state Earned Income Tax Credit (EITC), wipe out all or most income tax liability for many of the poorest taxpayers. For instance, a single parent with two children and income of \$20,000 pays no income tax now. Proceeds from trimming the LLC Loophole and cutting other unproductive tax breaks should be used instead to make the state earned income tax credit refundable and to support investments in education, child care, public transit and other necessities.

The federal EITC is the nation's most powerful anti-poverty program. It is only available 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. That's because when the credit is in excess of state income tax paid, you get no refund. We want to work with the legislature to develop a state EITC proposal that will be fiscally feasible and help the lowest income families take care of their basic needs.

Not every tax change in the bill is a positive. The 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, links to good jobs, improved public transportation to broaden employment opportunities, better access to high quality child care, and other services that build opportunity for people, not add to the wealth of investors. This expensive tax break, amounting to \$50 million in GRF revenue in 2021, should be eliminated from the budget.

The state will issue a half billion dollars in new business incentive tax credits over the course of the biennium. It will pay out for a half billion, and will carry a \$1.2 billion in tax credit liability at the end of the biennium. By 2020, Ohio will forego almost \$10 billion dollars in tax breaks. These tax breaks are growing fast - by 18% since 2011 - but they are not scrutinized like budget expenditures are. While it is appropriate to repeal the tax breaks the House includes in this bill, you also need to give the Tax Expenditure Review Committee the staff and resources it needs 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.

ONGOING NEED FOR INVESTMENT

Ohio's ranking among states in overall health indicators is near the bottom and today we remain near the top for deaths due to the drug epidemic, despite important progress. Investment in children remains inadequate for childcare and early education. 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 welcome Governor DeWine's call for investment in Ohio and we note the impressive investments of the executive budget in Ohio's underfunded child protective services, in indigent legal services and in the mental health continuum of care – investments strengthened in the House budget. The Medicaid expansion and the children's health insurance program are fully funded. The House budget boosts funding to protect seniors from elder abuse by \$1.5 million in each year – more is needed – and it earmarks \$1.2 million for wage and hour enforcement each year, eliminating the 2021 cut in the executive budget. The Commission on Minority Health gets increased funding to address the infant mortality crisis. We appreciate these changes.

Substitute House Bill 166 still lacks adequate funding to help families struggling in the Ohio's low wage labor markets. Six of our ten biggest occupational groups leave a parent with two kids eligible for – and needing – food assistance. Too many Ohio families can't meet basic needs in housing, transportation, childcare, health care and food. Health and human service programs are critically important to a growing share of Ohioans. The largest share of Ohio's health and human service programming comes from the federal government, and Ohio could lose federal funding and congressional representation if state residents are undercounted in the 2020 census. State funding of \$2.5 million for education, outreach and accuracy efforts and \$250,000 to staff a "Complete Count Commission" would ensure a fair, comprehensive and accurate count.

The executive budget uses surplus TANF dollars to improve the public childcare system, but the surplus will be spent after 2023. Lawmakers need to provide stable, predictable, sustainable state funding for this critical service, which supports working parents while giving kids a boost in school and in life. The Governor committed to raising eligibility for public childcare – it's harder to get aid in Ohio than in all but two states – but there is no funding for such an increase in this budget bill. Funding should be prioritized for this important service. Additional tax breaks and tax loopholes should be closed to increase a family's initial eligibility for the program from 130 percent of poverty to 200 percent.

State funding of Ohio's schools remains unconstitutional more than twenty years after the first court finding. The DeWine Student Wellness and Success plan, boosted further in the house budget, is an important investment in Ohio's children. But we also need substantial increases in foundation funding itself, which supports classroom instruction. Dollars from a dramatic increase in funding for vouchers would be more productively used to improve public education.

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 18.1 percent 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. The Ohio College Opportunity Grant (OCOG), the state's only need based grant, misses the goal set under the Taft Administration by \$100 million a year, even with substantial increases in the DeWine budget; it should be fully funded.

Between 2006 and 2018, local governments lost almost \$1.5 billion, adjusted for inflation, through cuts in state aid and the loss of local tax revenues reduced or eliminated by the state. Yet local governments remain responsible for health and human service delivery, courts and public safety, and other mandated expenses. Some relief is provided to counties with state investments in critical services. Cities have not seen relief. The municipal distribution to the local government fund should be restored. 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.