Policy Matters Ohio

EXECUTIVE SUMMARY
February 2019

Budget

INVESTING FOR GROWTH

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Policymakers in Ohio have cut taxes for the wealthy at the expense of paying for services that help our communities thrive. Common-sense tax restorations on those who can afford to pay more could instead allow direct investments in schools, local governments, aid for college and public transit systems. Such investments have a high return. When we fund communities, money returns to the economy and jobs and wages increase. A new analysis finds if policymakers implemented a fairer tax system and invested the revenue in people and communities, in 2020 the state would add 39,601 more full- and part-time jobs, wages would increase by $1.7 billion, and state gross domestic product (GDP) would grow by $2 billion. Those gains would be in addition to the direct benefits of public services. This analysis does not account for longer-term benefits of better educating Ohioans and funding services that help communities prosper.

After years of income-tax cuts that have disproportionately favored the wealthiest, Ohio's tax system is upside down. It rewards the wealthy at the expense of low- and middle-income Ohioans. Under the current system, low-income Ohioans pay nearly twice the share of income in state and local taxes as the top 1 percent, who earn more than $1 million a year on average.

State tax cuts have not helped the economy. Ohio job growth since they began has been slower than the national average, as is our median wage growth. Since 2005, Ohio job growth was just 4.4 percent compared to national growth of 12.2 percent.[1] Meanwhile, Ohio's public services from education to public transit are underfunded.

In *Overhaul: A plan to rebalance Ohio's income tax*, Policy Matters Ohio proposes a tax plan to restore state income tax rates on the highest brackets of income earned by the most affluent Ohioans and close a big, unproductive tax breaks. As the state cut taxes on the wealthiest, it raised sales and other taxes that weigh most heavily on low-income families. To rebalance the tax system, the Policy Matters plan would also strengthen the state Earned Income Tax Credit (EITC), a tax credit for working, low-income Ohioans with children.

Working with the Institute on Taxation and Economic Policy (ITEP) to develop the revenue plan, and with the Regional Economic Models Inc (REMI) to model the economic impact of investing raised revenues into public services,

The revenue plan

The state can generate $2.6 billion in revenue by enacting a few common-sense changes to the state income tax:

[1] "Economic Policy Institute Analysis of Current Population Survey Data."

- Restore the 7.5 percent income-tax rate on income over $217,400 approved in 1992 under Gov. George Voinovich;[2]
- Add a new 8.5 percent rate on income over $500,000;
- Repeal the business income deduction enacted in 2013, which is draining more than $1 billion a year from state revenues with little discernible impact on jobs or small-business growth; and
- Make our state EITC refundable, remove a cap that reduces the amount many Ohioans receive, and raise it to 20 percent of the federal amount.

The investment plan

According to an analysis by the Institute for Taxation and Economic Policy, the proposed tax plan would generate $2.6 billion a year, including the cost of expanding the EITC. Policy Matters recommends the additional revenue be used to fund important public services. We will detail many of these proposals in our forthcoming Investment Budget paper. The key investment areas are local government, K-12 education, public pre-school, need-based financial aid for college students (the Ohio College Opportunity Grant), and public transit (see Table 1), all of which have either long been underfunded or have seen their funding slashed.

Findings and conclusion

The analysis found that total employment would increase by over 37,000 jobs per year with the proposed revenue and investment plan. Salaries and wages are projected to grow by around $2 billion a year from 2020 to 2025. Ohio's GDP would rise by over $2 billion a year during the same time (see Table 1).

Table 1

Increase in total employment, wages, and GDP as a result of Policy Matters' tax and investment plan

	2020	2021	2022	2023	2024	2025
Increase in total employment	39,601	39,667	39,358	38,906	38,202	37,304
Increase in wages	$1.7 billion	$1.9 billion	$2 billion	$2.1 billion	$2.1 billion	$2.2 billion
Increase in GDP	$2 billion	$2.1 billion	$2.1 billion	$2.2 billion	$2.2 billion	$2.2 billion

Source: Policy Matters Ohio based on REMI analysis conducted by the National Education Association

Investing in people spurs economic growth and yields long-term benefits that make Ohio stronger. By requiring the wealthy and corporations to pay their fair share of taxes, the state can generate much-needed revenue to invest in education, public transit, and local governments.

[2] Ohio's income-tax brackets change each year based on inflation, so originally, this bracket began at $200,000. The $218,250 amount is the Institute on Taxation and Economic Policy's estimate from earlier in 2018 for where the top bracket in the income tax would be for 2018, adjusting for inflation from the 2017 amount of $213,350. The actual top bracket will begin at $217,400, according to the Ohio Department of Taxation.