Policy Matters Ohio

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Sales Tax Rate Increase Would Hit Poor, Middle Class More than the Wealthy

The increase in the sales tax rate approved by the Ohio House of Representatives last month would be close to five times as great a burden to low-income taxpayers as it would be to the most affluent Ohioans. And the bulk of Ohio families – those making $15,000 to $65,000 -- would pay at least three times as much of their earnings in the additional tax as the richest Ohioans.

The top 1 percent of non-elderly Ohio families by income, who earn at least $261,000 a year and average $660,200, would pay just 0.14 percent more of their income in sales taxes under the increase approved by the House. The poorest 20 percent of these families, who make less than $15,000, would pay an additional 0.67 percent of their annual income. Families in the middle fifth of the income spectrum, who make between $27,000 and $41,000 a year, would pay an additional 0.52 percent.

The data, released today by Policy Matters Ohio, were based on calculations by the Institute on Taxation and Economic Policy (ITEP). "Ohio needs more revenue to pay for vital public services, and the House has begun to recognize that with the sales tax increase," said Zach Schiller, Policy Matters Ohio research director. "However, we should make sure that those least able to pay are not forced to shoulder the largest burden."

Low- and middle-income Ohioans already are paying a larger share of their earnings in state and local taxes than better-off taxpayers do. According to a previous study by ITEP released in January, *"Who Pays? A Distributional Analysis of the Tax Systems in All 50 States,"* the poorest fifth of non-elderly Ohio families pay 11.0 percent of their income in state and local taxes, compared to 9.7 percent for the richest 1 percent.

When the interaction between state and federal income taxes is taken into account, the wealthiest Ohioans pay just 6.7 percent of their income in state and local taxes—much less than the 10.9 percent burden on the poorest Ohioans. This is because upper-income taxpayers are able to deduct state income and local property taxes on their federal income-tax forms. Increasing the Ohio sales tax would raise the state and local tax burden on the poorest Ohioans to 11.6 percent of their income, adjusting for federal deductions. By contrast, the burden on the wealthiest taxpayers would be just 6.9 percent—less than 60 percent as much as the low-income tax load.

Estimated Change in State and Local Taxes for Non-elderly Taxpayers Resulting from a 1%-point Sales Tax Increase							
Income Group	**Lowest 20%**	**Second 20%**	**Middle 20%**	**Fourth 20%**	**Top 20%**		
					Next 15%	**Next 4%**	**Top 1%**
Income Range	Less than $15,000	$15,000 – $27,000	$27,000 – $41,000	$41,000 – $65,000	$65,000 – $117,000	$117,000 – $261,000	$261,000 or more
Average Income in Group	$8,800	$20,800	$33,600	$51,900	$82,500	$160,300	$660,200
Increase in state and local taxes as share of income	+0.67%	+0.61%	+0.52%	+0.44%	+0.35%	+0.23%	+0.14%
Average change in dollar amount	$59	$127	$173	$229	$290	$374	$915
All state and local taxes as a share of income	11.6%	11.3%	11.2%	10.9%	10.7%	10.3%	9.9%
After federal tax deductions	11.6%	11.2%	10.8%	10.2%	9.4%	8.3%	6.9%

More affluent Ohioans would pay a larger amount, in absolute dollars, for the tax increase. But that would add up to a much smaller share of their incomes, making the increase a greater burden on the less well-off. Sales taxes generally fall more heavily on low- and middle-income taxpayers because they spend larger shares of their incomes than the rich do.

A state earned income tax credit (EITC) would wipe out the added burden of a penny sales tax increase for many families in the bottom half of the income spectrum. The federal EITC provides tax credits to working families earning less than $34,000 a year. A state credit, set at 20 percent of the federal credit would further assist many Ohio families below this income level.

In addition, the state needs to take other steps to raise revenue, ensure that it is raised from those most able to pay and reverse the shift of the tax burden from business to individuals that has occurred over the past 20 years. "The legislature should close loopholes in the corporate franchise tax and consider a temporary increase in the income tax for those making more than $200,000," Schiller said.

Policy Matters Ohio is an Ohio-based nonprofit, nonpartisan institute that does research on issues that matter to low- and middle-income Ohioans, on the web at www.policymattersohio.org. The Institute on Taxation and Economic Policy is a nonprofit, nonpartisan Washington-based research group, on the web at www.itepnet.org. Its tax model is similar in methodology and data sources to the elaborate computer models used by the U.S. Treasury and the congressional Joint Committee on Taxation, except that the ITEP Model adds state-by-state estimating capabilities. The figures show the effects of 2002 state and local tax laws, at 2000 income levels.