# Boosting revenue :
## *Tapping top earners to meet Ohio's needs*

**Executive Summary**

In order to balance the Ohio state budget, Gov. Ted Strickland has proposed temporarily restoring the last year of a five-year, 21 percent income-tax cut approved in 2005. The governor has called for suspending one year of the cut to generate $844 million over two years for the state's General Revenue Fund.

After the major slashes in state spending that were required to balance the budget, calling off one part of the tax cut is a realistic first step. However, the General Assembly should go farther and also reinstitute the tax rate of 7.5 percent on income over $200,000 that existed prior to the tax cuts enacted in 2005. In addition, the legislature should consider creating a new, 8.5 percent bracket for income over $500,000. This analysis relies on the Institute on Taxation and Economic Policy, a Washington D.C.-based research institute with a sophisticated model of state and federal taxation systems, to examine the effects of all three steps: Gov. Strickland's proposal, reinstating the previous rate on income over $200,000 and creating such a new $500,000 bracket.

According to the ITEP analysis, combining the governor's proposal with the increases for the highest-income Ohioans would generate more than $950 million a year. Almost $600 million, or more than three-fifths of that amount, would be paid by Ohio taxpayers in the top 1 percent of the income spectrum, those expected to make $319,000 or more this year. On average, this group makes $841,000 a year. The tax increase would cost such taxpayers on average 1.3 percent as a share of their annual income. Their overall Ohio income tax on average would climb from $36,673 to $47,616, or 5.7 percent of their income.

By contrast, the four-fifths of Ohio taxpayers making $76,000 or less a year together would pay just 14 percent of the total tax increase. On average, taxpayers in the middle fifth of the income scale – those making between $32,000 and $49,000 a year – would have to pay an additional $37 a year, or less than one tenth of one percent of their annual income. Lower-income taxpayers on average would pay even less than that. Under this proposal, all taxpayers would continue to see four-fifths of the tax reductions that they experienced on any income earned below $200,000.

Across the country, affluent Americans have benefited far more from economic growth in recent decades than those lower down on the income ladder. Between 1993 and 2007, for instance, half of all income growth went to families in the top 1 percent of the income spectrum. While income inequality in Ohio is not as extreme as in the nation as a whole, in 2006, the richest 1 percent of Ohio families took in more than 15 percent of all income in the state, while the entire bottom half of the population shared less than 15 percent of the state's income before taxes.

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Raising the income tax on high-earning Ohioans makes sense because it will allow the state to make crucial investments in education, help mend the safety net when it is most needed and adequately finance the current budget while preparing for the loss of one-time revenues that help support it. High-income Ohioans are most able to pay additional taxes – and the revenue is badly needed.

As necessary as the governor's proposal is, it will still leave Ohio's budget precariously balanced, with a real chance that it will fall out of whack again. As approved, the budget slashed spending for important human needs, including mental health services and programs that allow seniors to stay in their homes and for children's early care and education. At the same time, it insufficiently funded Gov. Strickland's school plan, mass transit, libraries and food pantries, among other items. It relies on stretching out debt payments and using up reserves. This leaves a gigantic hole when the one-time sources used in this budget are not available.

Roughly half of the money raised from adopting this tax proposal would be needed to close the existing gap in the biennial budget for fiscal years 2010 and 2011. The other half would allow the General Assembly to restore some of the cuts made in the FY10-11 budget and to better position the state for the long-term, as annual revenues are billions of dollars below the necessary level to sustain even existing state services.

The 2005 income-tax cuts have not resulted in a relative improvement in Ohio's economy to the rest of the nation, either before or after the beginning of current recession. Increases in income taxes for the affluent are less likely to hurt the state's economy than the spending cuts that have taken place – and will take place – if the tax cuts are all maintained.

Other states have been taking steps to boost income-tax rates on the wealthiest households: Seven states have done so this year alone, according to the Center on Budget and Policy Priorities. Ohio will need to take other steps, such as bolstering business taxes and tightening up on tax loopholes, to put its budget on a sound foundation. However, strengthening the income tax with higher rates for the most affluent is a crucial first step.