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Ohio can meet needs, prepare for future, by tapping top earners

Study outlines effects of restoring old top rate, adding "half-millionaire" tax

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. A report released today by Policy Matters Ohio examines the effects of implementing the governor's proposal together with two other measures that would raise income-tax rates on the most affluent: Restoring the 7.5 percent rate on annual income over $200,000, and creating a new, 8.5 percent bracket for income over $500,000. The 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.

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 one percent of the income spectrum with an estimated average income of $841,000 in 2009. Such Ohioans on average would see their state income tax increase by $10,943, or 1.3 percent.

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 less than that.

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, as they have seen gains from economic growth in recent decades. In 2006, the richest one percent of Ohio families took in slightly more pre-tax income than the bottom half of the population.

Roughly half the revenue raised from adopting this three-part 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.

"After the major cuts in state spending we have seen, suspending one part of the tax cut is a realistic first step," said Zach Schiller, Policy Matters research director and report author. "However, the General Assembly should go farther, reinstitute the 7.5 percent rate first adopted under Gov. Voinovich, and add a 'half-millionaire' tax." State Reps. Mike Foley and Bob Hagan have introduced House Bill 308 that includes both of these measures.

Restoring the necessary revenue to meet the needs of Ohioans and operate Ohio government can't be done with the income tax alone. But a stronger income tax is a cornerstone of a sound budget strategy for Ohio, the report concluded.

Policy Matters Ohio (www.policymattersohio.org) is a nonprofit, nonpartisan research organization with offices in Cleveland and Columbus. The Institute on Taxation and Economic Policy is a nonprofit, nonpartisan research group in Washington, D.C. ITEP's Microsimulation Tax Model allows it to measure the distributional consequences of federal and state tax laws and proposed changes in them, both nationally and on a state-by-state basis. A description of the tax model can be found on ITEP's web site, www.itepnet.org.