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Tax plan will add jobs, study says

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Cutting Ohio's income tax and making other tax changes Gov. Bob Taft proposes would create more than 43,000 new jobs in five years and spur economic growth, a state-funded study released yesterday shows.

The 133-page study also concludes that the controversial new commercial-activity tax on business receipts that Taft proposes would create the least amount of economic damage of any major business tax examined.

Administration officials say the results back up what they have been saying for weeks: that Taft's plan to update an antiquated tax code would boost Ohio's struggling economy.

"The governor's plan creates a more competitive atmosphere in the state and will, in fact, add jobs to the state economy," Lt. Gov. Bruce E. Johnson said.

But Democrats and critics of the tax plan were not convinced.

They noted that the study projects a net $2.8 billion reduction in tax revenue by 2010, which they fear will force other tax increases or spending cuts to education and vital state services.

"There's got to be a plan that can do better than that," Rep. Dale Miller, of Cleveland, the top-ranking Democrat on the House Finance Committee, said when told about the results. The state is paying $154,000 for the study by Regional Economic Models Inc., a Massachusetts consulting firm that has done similar studies for dozens of state and local governments since 1980. The consultants use a complicated computer model that first forecasts what the state economy will look like over time with the current tax code. The proposed tax changes are then plugged into the model to measure their impact. The model evaluated Taft's plan to cut income taxes, phase out the corporate franchise tax and eliminate taxes on business inventory and machinery — while adding the new commercial-activity tax and raising taxes on alcohol, cigarettes and other tobacco products.

The results show that although the new business tax and higher "sin" taxes would cost the state jobs and investment after all changes are made by the 2010 fiscal year, the tax cuts would overcome those losses and create new growth.

The model, built specifically for Ohio, is designed to provide what's called dynamic feedback. That means it factors in how behavior changes when tax changes are made.

For example, the model assumes that sales of cigarettes will decline if cigarette taxes are raised or investment will increase by removing certain business taxes.

"It's fairly widely used in other states, and it gives you a much better picture what your tax revenues will be in the future," said Rep. Sally C. Kilbane, the Republican chairwoman of the House Ways and Means committee and a former economics professor.

But some Democrats and other critics question how reliable such studies are — and how much of a role taxes play in job creation.

Zach Schiller, research director of Policy Matters Ohio, in Cleveland, also noted that more than a third of the projected job growth in the study comes from reducing the current state sales-tax rate — when the state actually is keeping half of a penny-perdollar tax set to expire June 30.

Sen. Ron Amstutz, R-Wooster and chairman of the Senate Ways and Means and Economic Development committee, said what matters is not whether the specific numbers in the study are precise but rather what general trends it projects.

"We’re using it to help evaluate whether we’re going in the right direction for the economy," he said.

The tax changes are being considered as part of the state’s two-year, $51.3 billion budget passed by the House and now being considered in the Senate. It must be passed by June 30.

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