



OHIO'S BIG BUSINESSES BEATING TAX SYSTEM

Budget bill does little to close loopholes and ease burden on workers, some critics say

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Why are so many Ohio corporations paying so little tax?

That's the \$64,000 question -- or maybe the \$50 question.

Of 101,411 nonfinancial businesses liable for corporate-franchise tax in 2002, 46 percent of them owed the minimum \$50, according to the Ohio Department of Taxation.

That means those companies claimed that they didn't make a single dollar in Ohio and put the value of their Ohio operations at zero.

An additional 35 percent owed \$2,000 or less.

That means 81 percent of corporations are paying less in income tax than a person or family with taxable income of \$57,750, whose tax bill was \$2,002 last year.

"It's a travesty," said Zach Schiller, research director of Policy Matters Ohio, a nonpartisan research group based in Cleveland. "The way that the system is set up is slanted against working Ohioans."

Tax experts say Ohio's business taxes are among the least productive in the nation because many of the largest corporations have figured out how to beat the system. The result is a tax structure that has shifted the burden to individuals and smaller companies.

In 1973, the share of general-revenue fund generated by the corporate-franchise tax -- the state's main tax on business income or net worth -- was 14.7 percent, according to the Office of Budget and Management. Three decades later it's dropped to 4.6 percent.

Working people have taken up the slack. The state income tax -- primarily paid by individuals -- produced 17.3 percent of general revenue funds in 1973. By last year, individuals accounted for 47.2 percent. The national average is 35 percent.

"We are overtaxing the middle class and undertaxing millionaires and . . . multinational corporations," said Senate Minority Leader Greg L. DiDonato, D-New Philadelphia.

It was against this backdrop that in January, Gov. Bob Taft proposed reforms to the tax structure.

The Republican governor recommended changes -- many suggested by a bipartisan commission headed by state Tax Commissioner Thomas M. Zaino -- that would reduce tax rates but close loopholes that let large companies shift income earned in Ohio to other states. The changes -- part of Taft's budget proposal -- were intended to make the system more fair and require businesses to pay a greater share of state taxes.

Taft wanted to lower individual income-tax rates; extend the sales tax to more services; and lower the corporate-franchise tax but eliminate tax-avoidance loopholes.

"The Taft proposal made a lot of sense," Schiller said. "I was sort of surprised by it, frankly."

So, it seems, were GOP leaders of the House and Senate. Moving to close a multibillion-dollar budget deficit and under pressure from business interests, they stripped the budget of almost all tax reform.

Instead, the House opted for a penny increase in the sales tax -- which Policy Matters says imposes a five-times-greater burden on low-income Ohioans than high-income ones. The Senate kept the sales tax, added some tax breaks for business and raised the minimum franchise tax from \$50 to \$1,000 for the largest corporations.

Both versions of House Bill 95 are headed to conference committee this week.

"Under current circumstances, we've squeezed out about as much tax reform as we can get," said Senate Finance Committee Chairman Bill Harris, R-Ashland.

Another Republican, Sen. Ron Amstutz of Wooster, agreed that it's better to tackle reform after the budget is in place.

Taft and others disagree.

"The governor is still talking about tax reform," spokesman Orest Holubec said. "This is the time to do it because we have to do it for long-term stability in revenues."

Many Democrats share Taft's view and support his plan.

"Tax reform remains an issue to be addressed in the conference committee," said Sen. Eric D. Fingerhut of Cleveland.

Richard G. Sheridan, a tax consultant and former director of the state's Legislative Budget Office, said a budget bill is the best place for reform.

"It's the best time to trade votes for spending with votes for tax reform," he said. "If it's not done in the context of the budget, it's not going to get done at all."

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