



Friday, April 29, 2005

Tax plan analysis favorable Taft critics disagree

By John Byczkowski
Enquirer staff writer

Gov. Bob Taft's proposed commercial activity tax would kill more than 15,000 jobs and sap Ohio of more than \$1 billion in gross state product, according to a new analysis of the plan released Thursday by the Ohio Department of Development.

But the analysis also projects that Taft's overall tax plan would help Ohio business create more than 43,000 jobs and add \$2.5 billion to gross state product.

The state paid \$150,000 for the study by Regional Economic Models Inc. of Amherst, Mass.

Critics quickly pointed out that the study leaves out some tax increases and doesn't take into account the effects of state budget cuts in areas such as education and the local government fund.

When fully enacted, the tax plan would raise \$2 billion less than now, said David A. Ellis, a senior fellow at the Center for Community Solutions, a health and social policy advocacy organization in Cleveland.

The analysis doesn't take into account cuts that would be needed in state government to balance the budget or the effect of \$500 million less in tax revenues being funneled to local governments.

"The public sector is just as much a part of gross state product as the private sector is," Ellis said.

"The administration has continued to overstate the impact of the tax plan," he said.

Lt. Gov. Bruce Johnson, the administration's point man on tax reform, acknowledged the 43,000 new jobs isn't enough to make up for the 225,000 jobs lost in the state since June 2000. Still, "The government ought to be doing everything it can do, to assist. We'd rather have government working in the right direction," he said.

Comparing the increase in jobs to state employment of about 5.3 million, "you're talking an increase of something under 1 percent over five years," said Zach Schiller, director of Policy Matters Ohio, a nonprofit think tank in Cleveland. "While no one's going to sneeze at 43,000 jobs, it's not something that's going to significantly change the overall picture in the state."

The study looks at major changes in the state's tax structure proposed by Taft and incorporates some changes made to the plan since it was introduced in February. The state would phase out over five years the state's business taxes on profits, net worth, machinery, equipment, inventory, furniture and fixtures. It would phase in a 21 percent cut in personal income tax rates and a new business tax, called the commercial activity tax, which would tax Ohio companies on revenues generated in Ohio.

The plan also raises excise taxes on beer, wine and cigarettes and would set the state sales tax at 5.5 percent.

The new analysis says the biggest bang comes from the cut in income taxes, which would generate more than 21,000 new jobs and \$1 billion in gross state product. Elimination of current business taxes adds some 28,000 jobs. The new commercial activity tax kills 15,000 jobs, and the increased tax on beer and cigarettes kills another 7,000 jobs.

The analysis also treats the sales tax proposal as a tax cut, creating some 16,000 jobs. The current 6 percent sales tax by law will decrease to 5 percent on July 1, but the governor proposed adding back 0.5 percent to pay for the income tax cut. Schiller said that

makes it a tax increase and should be treated differently in the analysis.

Schiller also pointed out two tax increases that account for more than \$500 million in new revenue for the state that are not included in the analysis: a 30 percent increase in the "kilowatt hour" tax on electricity, and elimination of a 10 percent rollback on commercial and industrial property taxes.

Johnson said the study did not examine alternatives to the governor's plan. "There are a hundred thousand variable options that have been discussed at one time or another," he said.

E-mail johnb@enquirer.com

[Print](#) | [Go back](#) | Copyright 2005, *The Enquirer*