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Ohio needs a tax system that is balanced between families and businesses

The State of Ohio is staring at a huge budget problem in 2011, because of the recession but also because of conscious state policy: The tax overhaul of 2005, the biggest in a generation.

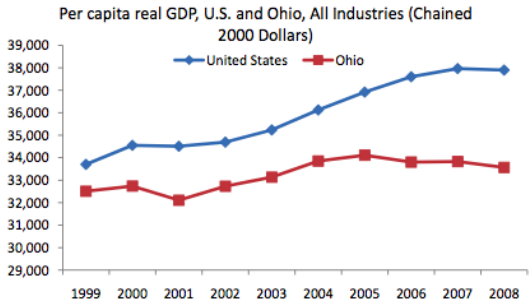
That year, the Ohio General Assembly eliminated two major business taxes, the state's tax on corporate profits and a major local property tax.

The legislature replaced these two taxes with a new tax on Ohio gross receipts, the Commercial Activity Tax (CAT). The personal income tax was also cut by 21 percent. Together with several other changes, these tax cuts are costing the state $2.1 billion in annual net revenue, according to the Ohio Department of Taxation.

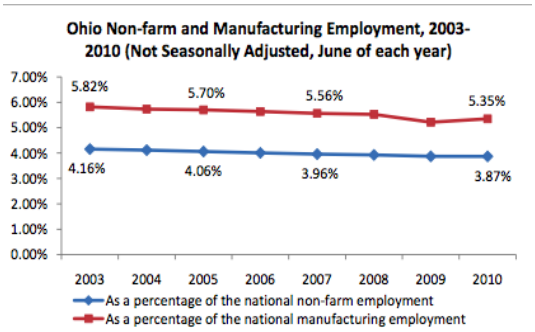
The Ohio Business Roundtable noted in a 2008 court filing: "The new business tax system substantially lowered the overall tax burden on business."

The business share of Ohio state and local taxes has fallen to about 30 percent from nearly 40 percent in the late 1970s.

Tax reform was justified with forecasts of new economic growth. It didn't work.



Business taxes as a share of state revenues have fallen by 25 percent over the last 30 years, but the jobs never grew.



The premise of the tax overhaul was that it would spark Ohio's economy.

But taxes are not a key determinant of state economic performance.

South Dakota, with no income tax and the lowest overall state & local taxes in the country (as a share of personal income), had the 2nd lowest unemployment rate in the country in June. North Dakota, a state with an income tax and the 5th highest overall tax levels, had the lowest unemployment rate. It doesn't take an economist to see that the similar economies of the Dakotas have more to do with a strong economy than tax structure.

Since 2005, the year of the big changes to tax laws implemented in the name of job creation and economic growth:

- *Ohio's share of the nation's jobs has shrunk from 4.06% to 3.87%.*
- *Our share of manufacturing jobs has fallen from 5.7% to 5.35%.*
- *Ohio lost 353,100 nonfarm jobs and 182,300 manufacturing jobs.*

The business tax cuts should be revisited, restoring revenue provided prior to the 2005 tax overhaul. This would still leave the business share well below where it was 30 years ago. Business taxes can be rebalanced with taxes on families to make the system more fair, adequate and stable.

There are a number of ways in which this could be done. Examples include:

- **Companies grossing up to $1 million annually pay only $150 in CAT tax – less than a family of four earning wages at the poverty line. This fee could be boosted.**
- **Ohio's corporate profits tax was undermined by loopholes. It could be reinstated at a low but fair rate, without carve-outs.**
- **The General Assembly eliminated a trigger mechanism that ensured the CAT would make up localities' revenue losses. That mechanism could be reinstated or the CAT rate increased.**

The Ohio General Assembly has many options for addressing the budget shortfall. Balancing business taxes with taxes on working families is an important part of the solution.