Cleveland Office
2912 Euclid Ave.
Cleveland OH 44115
(216)931-9922

POLICY MATTERS OHIO
www.policymattersohio.org

Columbus Office
PO Box 1772
Columbus OH 43216
(614)324-7414

The Taft Plan for Income Tax Cuts is not Good for Ohio because:

- ***It creates new fiscal problems instead of solving them.*** The income-tax cut will reduce state revenues by nearly $1 billion during the FY 2006-2007 biennium, and by $2 billion a year when it is fully implemented in 2010. This makes it difficult to pay for crucial services and investments, and increases the chances of another state budget shortfall in the future. It also is likely to lead to higher local taxes, as local governments attempt to make up for lesser state support.

- ***It takes revenue out of the state.*** One-seventh of the tax cut will leave Ohio, lost to federal taxes because taxpayers who itemize will have lower state income tax to write off on their U.S. returns. This amounts to $280 million a year when the cuts are fully implemented. This will hurt Ohio's economy.

- ***There is no evidence it will grow jobs.*** California and North Carolina have among the highest individual income tax rates in the country (top rates of 9.3% and 8.25%, respectively), and yet Silicon Valley and the Research Triangle area are two of the world's leading high-technology centers. States with lower taxes have lower average incomes than those with higher taxes, according to the Center for Community Solutions.

- ***It is unnecessary.*** Ohio already has a mechanism in place, the Income Tax Reduction Fund, which automatically reduces income-tax rates when the state has enough of a surplus and can afford it.

- ***It favors the wealthy.*** According to a study conducted by the Institute on Taxation and Economic Policy (ITEP), if you make more than $274,000, then you are part of that 1% of Ohioans who on average will get more than $8,000 apiece from it. This small group will receive almost a quarter of the benefit from the income-tax rate cut. On the other hand, the 60% who make less than $43,000 a year will get just 14% of the total income tax break. Ohioans who make less than $16,000 a year – a fifth of all taxpayers – on average will see a reduction of just $19 a year.

- ***It makes the tax system more regressive.*** Despite the removal of income tax liability for some of our poorest citizens, the cumulative effect of cutting income tax rates and raising regressive taxes such as the sales tax and the kilowatt-hour tax causes a shift in the tax burden from wealthy individuals to the poor and middle-class. The income tax is the main tax based on ability to pay, and its reduction will further tilt the tax system against those who are not near the top of the income scale.

- ***The income tax reflects changes in the economy.*** Retaining the top rate of 7.5% is important for future state revenue growth because much of Ohio's income growth in recent decades has been concentrated in the upper-income strata. The bottom 60% of Ohio workers have seen little or no increase in real hourly pay over the past 25 years. By contrast, the top 10 percent experienced a 19% increase in real hourly pay from 1979 to 2003.