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COLUMBUS: 1372 GRANDVIEW AVE. SUITE 242 • COLUMBUS, OHIO, 43212 • TEL: 614/486-4601 • FAX: 614/486-4603
HTTP://WWW.POLICYMATTERSOHIO.ORG

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Contact: Jon Honeck, Policy Matters Ohio at 613-486-4601 or
Matt Gardner, Institute on Taxation and Economic Policy at (202) 468-3722
The issue brief is available at:
http://www.policymattersohio.org/StepTowardFiscalBalance.htm

Halting the final round of Ohio income tax cuts, restoring the top rate on wealthiest taxpayers would preserve $817 million in state revenue

A new analysis released today by Policy Matters Ohio shows that freezing the state income tax at current levels and restoring the top rate that was in effect before recent cuts would preserve $817 million in revenue in calendar 2009.

Despite a shortfall in the state budget, the fifth and final round of a total 21 percent cut to income-tax rates will reduce calendar year 2009 revenue by $441 million unless the legislature acts. Separately, the analysis shows that restoring the previous top rate of 7.5 percent on taxable income over $200,000 would raise approximately $376 million in annual revenue compared with the tax structure now in place. Ninety-two percent of the increase in the top rate would be paid by the top one percent of Ohio's families by income, or those making at least $339,000 a year.

Those were among the findings of a new issue brief, ***A Step Toward Fiscal Balance: Options for Ohio's Income Tax*** that describes Ohio's income tax options based on calculations by the Institute on Taxation and Economic Policy (ITEP), a nonprofit, nonpartisan research group in Washington, D.C., with a sophisticated model of the state and national tax systems**.**

"An enhanced income tax is the cornerstone of a realistic budget strategy," said Jon Honeck, senior researcher at Policy Matters Ohio. "At a minimum, the state should freeze income-tax rates at their current levels, and restore the previous top rate of 7.5 percent. Only two percent of Ohio families would be affected by raising the top rate and everyone else would pay the same rates they are this year."

Recently, the Strickland Administration announced that it must adjust spending by $733 million in order to balance the state's budget. Most of the shortfall is due to the economic slowdown, which is already resulting in lower than expected revenues. These cuts will result in the reduction of thousands of state employment positions and cuts to programs, including the closure of two psychiatric hospitals. Thus far, neither the administration nor the legislature has shown any signs of revisiting the income-tax cuts despite economic realities. The income tax is the largest source of revenue for the state, accounting for more than 45 percent of General Revenue Fund tax revenues in fiscal 2007.

After five years of rate reductions, the fully phased-in cuts will result in a loss of $2.22 billion in revenue in calendar year 2009 compared to original rates from 2004. The gains from the cuts are skewed toward the wealthy. The top one percent of Ohio families, who have average incomes of $890,000 per year, will save an average of $10,273 per year from the fully-phased in rate cuts. Families in the middle income quintile, who have average incomes of $38,000, will save an average of $187 per year.

The top 20 percent of Ohio families by income will receive $1.56 billion, or 70 percent, of the aggregate $2.22 billion annual reduction.

The report also analyzed the potential effects next year of restoring 2007 income tax rates with the original 7.5 percent top rate. In this scenario, 98 percent of Ohio families still would receive three-fifths of the fully phased-in rate cut. This option would increase income tax revenue by $1.164 billion over the expected level in calendar 2009. The vast majority of the additional revenue, 78 percent, or just above $900 million, would be paid by the top 20 percent of income earners.

All options described in the study preserve the low-income tax credit that removes all tax liability for the poorest of Ohio families. A description of the ITEP model is available on the institute's website at www.itep.org.

Policy Matters Ohio is a non-profit, non-partisan research institute with offices in Cleveland and Columbus.