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**Testimony of Wendy Patton, Senior Associate,**
**Before the Senate Finance Committee**
**Prepared for delivery on May 19, 2011**

Good morning, Chairman Widener, Ranking Member Skindell and members of the Senate Finance Committee. Thank you for the opportunity to testify today on House Bill 153. I am Wendy Patton, senior associate at Policy Matters Ohio, a nonprofit, nonpartisan research institute with offices in Cleveland and Columbus.

House Bill 153 makes numerous and drastic cuts to education, local governments and a wide range of public services. Instead, the General Assembly should take the necessary step of including new revenues. The damage of the cuts approach is becoming clearer each day, as cities, like Cleveland, announce layoffs of 81 police and 50 firefighters and like Dayton, announce one in ten teachers will be let go. Revenue is badly needed to make up the shortfall that still exists because of the 2005 tax cuts and the weak economy.

Many have pointed out that tax loopholes should be reduced, and we join the Ohio Chamber of Commerce, the Metropolitan Chambers, the Cleveland Plain Dealer and Akron Beacon Journal editorial boards and others in calling for rigorous re-examination of tax loopholes. The budget bill should include a 10 percent cut from the $7.4 billion in foregone revenue from exemptions, credits and deductions in FY2012. The General Assembly should then appoint a group to make recommendations and approve at least that amount in specific changes in the tax code.

We should maintain last year's income-tax rates for all Ohioans, while reinstating the 7.5% rate for income over $201,800 and creating a new, 8.5% rate for income over $500,000. This would generate $872 million a year, according to the Institute on Taxation and Economic Policy. But Ohioans in the middle fifth of the income spectrum, those making between $31,000 and $48,000, on average would forego a tax cut of only $35 a year. Even for the wealthiest 1% of Ohioans, the extra tax would only amount to 1.3% of their annual income.

Finally, we should restore some of the business tax cuts from 2005, which have not produced the promised improvement in Ohio's economy. Crain's Cleveland Business has suggested in an editorial a hike to the CAT tax. We suggest reinstating the corporate franchise tax without the loopholes that plagued it, at a low rate, and corporations could then pay either the higher of the CAT or the Corporate Franchise Tax. Some very large Ohio firms pay little or no CAT tax because their sales are primarily or all out of state. Reinstatement of the Corporate Franchise Tax would ensure all Ohio's corporate citizens get to participate in paying their fair share.

Together, these changes would produce revenue to avoid most of the huge cuts to schools, local governments and other vital programs – and the associated job losses. Our research shows that cuts to K-12 and higher education originally proposed by Gov. Kasich would lead to a reduction of more than 31,000 direct jobs—teachers, lunchroom workers, bus drivers, maintenance workers, and others—and almost 16,000 additional jobs at suppliers or at local businesses where educational workers spend their money. These numbers would be reduced only slightly by the additions in education funding made in the current bill.

Instead of adding needed revenue, however, the proposed budget bill as passed by the House would also repeal the estate tax, taking more than $200 million more annually from local governments. The estates of more than nine out of ten Ohioans will never have to pay the estate tax, but it will result in reduced services, reduced security, less waste collection, longer emergency response. The Ohio estate tax is not levied at all on the first $338,000 in an estate. Although opponents love to tell stories of farms and businesses that have to be sold to pay the tax, rarely can they come up with actual examples. That's because such examples rarely exist. Many farm estates do not have to pay the tax because of an additional exemption available to those passed on to blood relatives who continue to farm. In addition, Ohio law permits up to a 15-year extension for payment of the estate tax in cases of "undue hardship." The state taxation department said earlier this year that fewer than two-dozen estates remain open under such extension.

Large numbers of Ohioans are not heading out of state because of the estate tax any more than the lack of such a tax in Michigan is keeping many residents of that state at home. Joe Honerlaw, trustee of Springfield Township in Hamilton County and a self-described "fiscally conservative Republican" told the Ways & Means Committee in February that in his 27 years as a lawyer he had had many clients write six-figure estate-tax checks in his office. "I have yet to have one client say, 'I'm leaving Ohio because of the tax,'" he said. The estate tax also makes Ohio's tax system fairer. Lower- and middle-income Ohioans pay a greater share of their income in state and local taxes than more affluent Ohioans do. According to the Institute on Taxation and Economic Policy, Ohioans in the top 1 percent of the income spectrum pay an average of 7.8 percent of their income in state and local taxes. By contrast, the fifth of Ohio families in the middle pay 11.0 percent. The estate tax is one of the few taxes partially offsetting a tax system that falls more heavily on less affluent families. Some level of taxation on inheritance dates back to 1797 in the United States; increased concern over concentration of wealth in the early part of the last century brought renewed attention to the estate tax nationally. At this time of unprecedented concentration in wealth, this is a reasonable tax to preserve in the public interest.

Thank you very much for the opportunity to testify.