

Ten reasons to like Ohio's income tax

Ohio's income tax is the only major tax based on the ability to pay. This principle was embraced by the founders of our democracy, such as Thomas Jefferson, as well as by the intellectual father of capitalism, Adam Smith. As your taxable income goes up, you pay a higher rate; for instance, income between \$20,450 and \$40,850 is taxed at 3.521 percent, while income between \$40,850 and \$81,650 is taxed at 4.109 percent. Those with income below \$10,000 receive a credit that wipes out their tax liability; the top rate, 5.925 percent, is applied to income over \$204,200. Other major taxes, such as sales and property taxes, take a bigger bite out of poor and middle-class Ohioans' income than they do of those now making \$340,000 or more a year, the top 1 percent of Ohio taxpayers. Ohio, along with 41 other states and the District of Columbia, relies on a state income tax to meet vital needs.

The state income tax is the largest single source of revenue for Ohio, providing close to \$17 billion for the state's main operating budget. In the current two-year state budget, the state income tax is forecast to account for 30 percent of revenue or close to \$17 billion for Ohio's General Revenue Fund. That's more than all state spending on K-12 education, for which the state pays nearly half. And it's more than double the amount spent on higher education and prisons, taken together.

Without the state income tax, higher tuition and lower financial aid would likely keep many more students from attending college. Rising post-secondary costs have already put higher education out of reach for many – cutting Ohio's income tax will make it even more unaffordable.

Income-tax revenue helps the state pay for property tax credits, which saved Ohio homeowners more than \$1.6 billion in 2010. Homeowners receive a 10 percent credit each year on their property taxes, paid by the state. Owner-occupants receive an additional 2.5 percent credit, while seniors are eligible for a homestead exemption. The state makes up the difference, paying school districts and municipalities for the revenue they don't receive. Owners in Vinton County benefited by just over \$1 million in 2010; in Cuyahoga County, it was more than \$240 million. Cutting the income tax would make it harder to maintain these property tax credits, and would likely push more taxes to the local level, where there are big disparities based on local wealth.

Ohio's income tax helps pay for local police and fire protection, trash collection, street lighting and other services. In the past, the Local Government Fund has been a set percentage of major general revenue taxes the state receives, including the income tax. It is scheduled to revert to a set percentage after the current two-year budget. Although LGF funding was slashed for the current budget, it is still dependent on the receipt of the income tax and other state taxes. Local services across the state were affected when the current state budget cut the LGF, but it remains a key contributor to the quality of life – and safety – in communities across Ohio.

Ohio's library system is among the finest in the United States, in part because of revenue generated by the state income tax. State-level funding has made Ohio's library system great. Our libraries used to get a straight percentage of income-tax revenue. That is no longer true, and funding has been slashed 27 percent over the past decade, but libraries still received \$365 million in state support last year.

Wherever you live, the state income tax supports your community. Each county in Ohio is guaranteed a minimum percentage of all the income, estate and inheritance taxes collected within its borders.

The income tax is a significant factor in Ohio's ability to repay its debts and invest in future capital projects. Ohio's constitution limits debt service to 5 percent of obligations paid by the General Revenue Fund and net lottery proceeds. Without the income tax, the state of Ohio would breach the 5 percent debt limit next fiscal year, according to our analysis of the most recent estimates on debt obligations and revenues from the Office of Management & Budget. Ohio's financial stability depends on its ability to continue funding its obligations. This biennium's spending of \$400 million on college buildings and other capital projects, for example, would be jeopardized without a strong income tax. Ohio's large backlog of unmet public construction needs, from parks to transportation projects, would grow that much more.

Ohioans pay lower U.S. income taxes because they are able to write off state income taxes on their federal returns. Nearly one in every seven dollars paid in state income taxes is returned to Ohio taxpayers because state taxes are deducted from federal taxes.

The income tax is the fairest tax. Although Ohio's needs to be more progressive, with higher earners paying more, we're fortunate to have the income tax as a foundation. The income tax pays for many crucial services and is a fairer way to raise money than most other taxes – some states rely only on those other, less progressive taxes. But our income tax is far from perfect – lower-income Ohioans pay a larger share of their income in state and local taxes than affluent taxpayers do. Figure 1 shows how the fifth of Ohioans with the lowest incomes pay the highest share of their income in such taxes on average, while those in the top 1 percent, averaging nearly \$1 million a year in income, pay a considerably lower share. Ohio's income tax should be protected and strengthened to make our tax system fair, provide the services we need, and make investments in our future.

