Another Ohio tax cut for the affluent?

Under SB 210, poor residents on average would get $1 a year

Zach Schiller

How a 4 percent income-tax cut would affect different Ohioans
Average cut for top 1 percent
$1,437
Average cut for middle 20 percent
$28
Average cut for lowest 20 percent
$1

A bill in the Ohio Senate would take the savings from Medicaid expansion and use it for an across-the-board, 4 percent income-tax cut. Such a cut might buy a cheap cup of coffee a year, on average, for low-income Ohioans, while producing over $1,400 a year for the state's most affluent residents.

These are the conclusions of an analysis done for Policy Matters Ohio by the Institute on Taxation and Economic Policy (ITEP), a Washington, D. C., based research group that has a sophisticated model of the tax system. It found that Ohioans in the top 1 percent of the income spectrum earning at least $360,000 a year would receive an average reduction in taxes of $1,437 a year. The middle fifth of Ohio residents, making between $34,000 and $54,000 a year, would get an average of $28. Those in the bottom fifth, making less than $19,000, would see an average reduction of just $1.

"The proposed income-tax cut would further tilt the tax system in favor of affluent Ohioans," said Zach Schiller, research director at Policy Matters Ohio. "Ohioans would be better served if we rehired police and firefighters, put teachers back in our classrooms, and invested more to protect vulnerable elderly from neglect and abuse." A Policy Matters Ohio policy brief last week identified some of the ways that savings from the Medicaid expansion could be used.[1]

Under Senate Bill 210 as it is now, libraries and local governments would see additional annual reductions of millions of dollars a year, since each receives 1.66 percent of tax revenues. It is also far from clear that the anticipated savings from Medicaid expansion will match the size of the tax cut that has been proposed.

The estimates in the table below show how different income groups in Ohio would be affected by an across-the-board 4-percent reduction in rates.

The analysis shows that the 60 percent of Ohioans with income below $54,000 a year would receive less than one dollar out of every seven cut in taxes. Nearly twice that amount, or one out of every four dollars cut in taxes, would go to the top 1 percent, whose average income is $1 million a year. Overall, more than 40 percent of the cut would go to the top 5 percent, those Ohioans making more than $151,000.

[1] "Use Medicaid savings to improve Ohio, not to give even more tax cuts to the affluent," Policy Matters Ohio, Oct. 25, 2013, available at www.policymattersohio.org/404million-oct2013.

Impact of a 4 percent income-tax cut							
	Lowest 20%	**Second 20%**	**Middle 20%**	**Fourth 20%**	**Next 15%**	**Next 4%**	**Top 1%**
Income range	Less than $19,000	$19,000 - $34,000	$34,000 - $54,000	$54,000 - $82,000	$82,000 - $151,000	$151,000 - $360,000	$360,000 or more
Average income	$11,000	$26,000	$44,000	$66,000	$106,000	$217,000	$1,006,000
Tax change as percent of income	0.0%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%
Average change	-$1	-$10	-$28	-$48	-$104	-$244	-$1,437
Share of tax change	0%	4%	10%	17%	27%	17%	25%

Source: Institute on Taxation and Economic Policy, October 2013. Covers total 2013 income and includes Ohio residents only.

Ohio has a graduated income tax, so people pay higher rates on higher levels of earnings. Because of that, across-the-board tax cuts give much more money to the wealthiest Ohioans. This reinforces inequality and adds to the unfairness of the state and local tax system, which is weighted in favor of upper-income taxpayers when all state and local taxes are taken into account.[2]

The new bill comes on top of tax changes approved as part of the state budget that further weighted the tax system against low- and middle-income Ohioans. While it included a modest, nonrefundable state Earned Income Tax Credit, it also raised the state sales tax, cut income-tax rates and created a big new tax exemption for business income. The poorest fifth of Ohio families on average will pay more in taxes as a result of the budget changes, while the top 1 percent will see an average annual reduction of more than $6,000.[3] Increasing the size of the cut would further heighten inequality while reducing revenue needed for schools, local governments and human services.

Policy Matters Ohio is a nonprofit, nonpartisan research organization with offices in Cleveland and Columbus. The Institute on Taxation and Economic Policy is a nonprofit, nonpartisan research group in Washington, D.C. ITEP's Microsimulation Tax Model allows it to measure the distributional consequences of federal and state tax laws and proposed changes in them, both nationally and on a state-by-state basis.

[2] "Ohio's state and local taxes hit poor and middle class much harder than wealthy," Policy Matters Ohio, Jan.30, 2013, at http://bit.ly/Wxng75. This analysis was prepared prior to approval of the state budget.
[3] Patton, Wendy, Zach Schiller and Piet van Lier, " Overview: Ohio's 2014-15 Budget," Policy Matters Ohio, Oct. 3, 2013, Table 1, p. 5, available at www.policymattersohio.org/budget-oct2013