



Contact: Zach Schiller, 216.361.9801
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MBR tax-package analysis reveals problems Volatility, uncertainty, unsustainability in shift to new sources

Significant uncertainty about the reliability of revenue that would be generated by tax changes included in the Kasich administration's Mid-Biennium Review throw into question the wisdom of funding tax cuts with the proposed tax increases, according to an analysis released today by Policy Matters Ohio.

Gov. Kasich has proposed income-tax cuts that, according to administration estimates, will total more than \$2.6 billion over the next three fiscal years, and increases in other taxes that would pay for much of these cuts. The new analysis suggests that there is considerable uncertainty whether the proposed increases in the severance tax on oil and gas, tobacco taxes, and the Commercial Activity Tax will generate the growing, sustainable revenue required to support the permanent income-tax reduction.

"It would not be financially responsible for the General Assembly to approve the tax cuts when the revenues used to back them are so uncertain," said Zach Schiller, report coauthor. "In addition, even official estimates show that the new taxes would not pay for \$174 million of the cuts over three years, money that will not be available to meet important Ohio needs."

The severance tax may not produce the needed revenue in the short-term, the report found, and is likely to be volatile. While the likely revenues from the other two major tax sources, tobacco taxes and the CAT, are better known, they still pose doubts. Tobacco taxes have been declining for years, apart from when tax increases have led to revenue spikes. And the CAT, the state's major business tax, has been "strongly cyclical," as a top official at the Ohio Department of Taxation testified in 2011. While the income tax, too, can decline significantly in an economic slump, it grows with the economy over the long-term, unlike tobacco taxes, and is not dependent on limited resources that will be used up, like the severance tax.

"There is good reason to support increases in the taxes Gov. Kasich has proposed, but not for income-tax rate cuts that will go mostly to affluent Ohioans," said Wendy Patton, report coauthor.

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*Policy Matters Ohio is a nonprofit, nonpartisan state policy research institute
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