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An income-tax repeal would hurt Ohio Swap for sales tax would sting most taxpayers, analysis finds

Eliminating the Ohio income tax and paying for just half of it with a sales-tax increase would mean higher overall taxes for low- and moderate-income Ohioans and nearly a 2.5-percentage-point increase in the sales-tax rate, according to an analysis Policy Matters Ohio released today.

“Repealing the Ohio income tax would blow an enormous hole in the state budget,” said Zach Schiller, research director at Policy Matters. “It would have to be paid for with gigantic budget cuts or major increases in other taxes.”

A sales-tax swap, the report found, would mean an additional \$145 in taxes on average for the poorest fifth of Ohio taxpayers, who made less than \$19,000 last year. By contrast, the top 1 percent, who made at least \$360,000, would receive an annual tax cut of \$33,576, or enough to purchase a top-end Mazda Miata MX-5 Grand Touring convertible each year. And that would still leave half of the tax cut unpaid for.

The report also looked at fully replacing the income tax with a higher sales tax. It found that would mean that the lowest-earning 80 percent of Ohioans would, as a group, see a tax hike. It would also mean boosting the state sales tax by nearly 5 percentage points, to 10.7 percent, and an average combined state-and-local sales tax of about 12 percent.

The report was based on an analysis by the Institute on Taxation and Economic Policy, a nonprofit research group based in Washington, D.C. that uses a sophisticated model of the state and local tax system. It analyzed the effects of repealing the income tax, and swapping the sales tax for all or part of the lost revenue.

Gov. John Kasich has made clear his interest in repealing Ohio’s income tax. Last year, a 10 percent cut in income-tax rates over three years approved by the General Assembly was accompanied by a quarter-penny increase in the sales tax. The income tax generates almost 40 percent of state tax revenue or about \$8 billion a year.

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