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Tax cuts would divert funds, flow mostly to the affluent Half of this year's savings would go to the top 5 percent, analysis finds

Half of the tax cuts the Ohio Senate has proposed for the current tax year will go to the top 5 percent of Ohio earners, according to a new analysis of key tax provisions in a state budget bill approved by the Senate last week. Those Ohioans earned at least \$151,000 last year.

“The bill diverts significant funds from needed public services,” said Zach Schiller, research director and co-author of the study. “At the same time, the top 1 percent will get a tax cut for the year averaging \$1,846, while the poorest fifth of Ohioans will see just a \$4 reduction.”

That disparity was one of the findings of a study Policy Matters Ohio released today, which features an analysis of the tax changes by the Institute on Taxation and Economic Policy, a nonprofit Washington, D.C.-based group with a sophisticated model of the tax system.

The Senate version of House Bill 483, approved last week, includes the speed-up of an income-tax rate cut, the expansion of a business-income tax break, higher personal exemptions for those earning up to \$80,000 a year and an increase in the state Earned Income Tax Credit (EITC). Altogether, they add up to more than \$400 million in fiscal year 2015.

ITEP's analysis found that the higher personal exemptions and expansion of the EITC provide only very modest savings for middle-income Ohioans and almost nothing for the poorest Ohioans.

“While increasing the EITC is a positive step, it needs to be made refundable to provide real benefits to the poorest Ohioans,” said Hannah Halbert, policy liaison at Policy Matters and report co-author. “That way, filers get a refund if the credit exceeds income-tax liability.” The Senate bill keeps the credit nonrefundable.

By far the largest share of the one-year tax cut in the bill, accounting for more than half the total, is the expansion in the business-income tax break, first approved last June. Ohio employment since then has grown more slowly than in the nation as a whole, and more slowly than in the period prior to approval of the measure. “It is no surprise that the new tax break hasn't led to a job surge,” said Schiller. “The vast majority of those who are able to take advantage of this deduction do not employ anyone, and the average credit claimed so far has been \$731.”

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*Policy Matters Ohio is a nonprofit, nonpartisan state policy research institute
with offices in Cleveland and Columbus.*