Policy Matters Ohio

Executive Summary
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Cuts and Breaks

Tax Changes in the Mid-Biennium Review

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Key findings

- The main Ohio budget bill approved in June will cost more than $400 million in Fiscal Year 2015, diverting funds needed for public services.
- Half of the one-year tax cut will go to the top 5 percent of Ohio earners.
- New tax breaks sometimes offer special-interest benefits to a narrow band of taxpayers

The main budget bill approved by the Ohio General Assembly in June will cut taxes in the next budget year by more than $400 million. Gov. John Kasich signed House Bill 483 into law at a food bank and proclaimed, “We are focusing the tax benefit on the people who are at the lowest income level." In fact, the lowest-income Ohioans will see an average tax cut for 2014 of just $4. Middle-income Ohioans also will gain only modestly. At the same time, half of the one-year tax cut will go to the top 5 percent of Ohio earners; the top 1 percent, who will get nearly a third of it, will average more than $1,800 each.

The $400 million instead could be used to address Ohio’s many needs. Deaths among the youngest Ohioans – our infants – remain shockingly high. Our cities are pocked with vacant and abandoned properties, casualties of the foreclosure crisis. Coalitions in the state’s biggest cities are rallying to expand support for preschool. These are just a few of the major needs that are going unmet.

The key tax changes in the main budget bill, as well as those in a companion measure, House Bill 492, grew out of Gov. Kasich’s original Mid-Biennium Review (MBR) proposal last March. Four well-publicized changes to the state income tax will:

- Accelerate the last piece of an across-the-board, 10 percent income-tax cut approved last year, so that the final 1 percent reduction scheduled to take place in calendar year 2015 will instead take place this year;
- Temporarily add to a tax break for business income that goes to anyone who shares in the profit of a partnership or other entity whose income passes through to its owners. This deduction, first created a year ago, is being increased for this year to 75 percent of the first $250,000 in such income (it was 50 percent);
- Increase personal exemptions under the income tax. Taxpayers with Ohio adjusted gross income of $40,000 or less will see their exemptions increase from $1,700 to $2,200 starting in tax year 2014; those with income over $40,000 but less than or equal to $80,000 will see an increase to $1,950, and
- Boost Ohio’s state Earned income Tax Credit, first approved last year, to 10 percent from the current 5 percent of the federal credit. However, unlike the federal credit, this state income-tax credit will remain nonrefundable and capped, so that most of Ohio’s poorest earners will see very little gain.

The table below shows the effect of these changes on taxes to be paid on 2014 income:

Impact for Tax Year 2014 of income-tax proposals in Senate bill

	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
Average tax change	-$4	-$24	-$36	-$40	-$56	-$282	-$1,846
Share of change	1%	8%	12%	14%	14%	19%	31%

Source: Institute on Taxation and Economic Policy, May 2014. Covers total 2013 income and includes Ohio residents only. Includes acceleration of across-the-board rate reduction, higher Earned Income Tax Credit, increased personal exemptions and expansion of the business-income deduction.

Though these tax changes are aimed at bolstering Ohio's economy and creating jobs, there is little evidence that previous rounds of tax cuts have accomplished that. The legislature passed a tax-cut package a year ago, including income-tax rate reductions and the business-owner tax break; since then, job growth in Ohio has lagged behind what it was just before the tax cuts, and behind that of the country as a whole. The vast majority of those who can take advantage of the business-income deduction do not employ anyone and are unlikely to do so.

In addition, the MBR bill contains new tax breaks that, while usually modest in size, sometimes offer special-interest benefits to a narrow band of taxpayers. These include:

- Revised tax breaks that allow investors to more easily receive tax credits for investments in small companies, which merely have to keep paying existing employees for investors to qualify. This loophole should be closed;
- Allowing a company to apply for a property tax break that until now, according to state rulings, had not met technical requirements. The company – Hitachi Medical Systems America Inc. – is unnamed in the bill and the legislative analysis of it, but Ohioans should be able to find out easily who is benefiting from proposed tax changes;
- Temporarily allowing an estimated $39 million in previously awarded historic-preservation tax credits to be taken against the Commercial Activity Tax, which investors otherwise would not have been able to use because of tax-law changes; and
- Expanding a recently approved property-tax break so it likely covers the Moose fraternal organization.

Most of the more than $400 million in tax cuts this fiscal year approved in the MBR will go to affluent Ohioans. This is unlikely to boost Ohio jobs. The MBR also continues an unfortunate Ohio tradition of permitting or enlarging tax benefits to special, narrow groups of taxpayers. We should review the tax breaks we have now. Instead of more tax cuts, we should restore and expand funding to local governments, public schools, health and human services and post-secondary education.