

Ohio's Affluent are Big Beneficiaries of 2013-2014 Tax Changes

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The Ohio General Assembly enacted tax changes in the current 2013-2014 session that further tilt Ohio's tax system in favor of the state's most affluent residents. The top 1 percent on average will see an \$8,225 reduction in state taxes this year as a result, while the bottom fifth will pay \$7 more.

The Institute on Taxation and Economic Policy (ITEP), a nonprofit Washington, D.C., research group with a sophisticated model of state and local tax systems across the country, analyzed the major Ohio changes in 2013 and 2014.¹ This brief reviews ITEP's findings, which cover the effect of the changes on Ohio residents for taxes paid on 2014 income.²

Middle-income Ohioans will see very modest tax cuts, averaging \$56. Those lower down on the income scale will see even less, if they see any gain. As with past income-tax cuts, the lion's share of the benefits goes to the affluent.

Table 1 shows how the changes affect 2014 taxes for Ohioans in different income groups.

Key findings

- State tax changes approved in the past two years will further tilt the tax system in favor of the affluent
- While the top 1 percent on average will see an \$8,225 reduction in state taxes this year, the bottom fifth will pay \$10 more
- Middle-income Ohioans on average will see a \$56 tax cut this year

¹ Policy Matters Ohio previously released ITEP data on the 2013 and 2014 changes, respectively. However, both because of overlap between the two budget bills and ITEP's move to use more current income data in analyzing the 2014 measure, it is not accurate to simply add the results of these two analyses.

² The analysis includes the 10 percent across-the-board income tax cut, the 75 percent business income deduction on the first \$250,000 (effective for 2014 only), the increase in the state sales tax from 5.5 percent to 5.75 percent, the tiered minimum rates under the Commercial Activity Tax, the elimination of the \$20 personal exemption credit for those with \$30,000 or more in annual income, the repeal of the income-tax deduction for gambling losses, the capped 10 percent nonrefundable Earned Income Tax Credit, and the expanded personal exemptions for those making \$80,000 or less. As with the original analysis of the 2013 tax package, it does not include five other changes in the sales or income tax that were included in it or the two property tax changes approved then. These are either quite small or are not easily modeled. The numbers in this analysis are slightly different than figures previously released because of an updating by ITEP.

Table 1

Impact for Tax Year 2014 of tax changes enacted by the Ohio General Assembly

	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 % of Income	+0.1%	-0.1%	-0.1%	-0.1%	-0.2%	-0.6%	-0.8%
Average Tax Change	\$7	-\$34	-\$56	-\$95	-\$258	-\$1,347	-\$8,225

Source: Institute on Taxation and Economic Policy, September 2014. Based on 2013 income levels and includes Ohio residents only. Includes major tax changes in the 2013 budget bill and the 2014 Mid Biennium Review. For a list of what is covered, see Footnote 2.

Overall, lower- and middle-income Ohioans pay a larger share of their income in state and local taxes than the affluent do.³ The state income tax is the one major state tax that partially offsets this; the higher your income, the higher rate you pay. That's how most state income taxes work. This means that across-the-board cuts in Ohio's income tax flow heavily to upper-income residents. In addition, the General Assembly last year approved a new deduction for business income, which was temporarily increased for 2014. It also increased the state sales tax, from 5.5 percent to 5.75 percent, and boosted minimum payments many businesses pay under the tax on Ohio gross receipts, known as the Commercial Activity Tax (CAT).

Despite the approval of other tax provisions creating and expanding a nonrefundable Earned Income Tax Credit, as well as boosting the personal income-tax exemptions for those making \$80,000 or less, many of the lowest-income Ohioans did not benefit from the overall tax changes. Modest income-tax cuts are partly or even entirely offset by the added sales and CAT taxes. The sales-tax increase falls more heavily on low- and middle-income taxpayers, who spend more of their income than upper-income taxpayers do, and the CAT increases are likely to ultimately fall on individual taxpayers in much the same way.

The tax changes in the past couple of years have reinforced the income shift caused by a larger tax overhaul in 2005. Altogether, as described in a previous report, major changes in Ohio's tax

³ See Policy Matters Ohio, "Ohio's state and local taxes hit poor and middle class much harder than wealthy," Jan. 30, 2013, at <http://www.policymattersohio.org/income-tax-jan2013#sthash.U5i2FIxl.dpuf>. This report shows tax levels prior to the 2013-2014 tax changes.

system over the past nine years have slashed average annual tax bills for the state's most affluent 1 percent of taxpayers by more than \$20,000, while the bottom three-fifths of state taxpayers as a group are seeing an overall increase. These tax changes also have slashed the amount of revenue available for investment in needed services, costing \$3 billion a year.⁴

A more complete description of the tax changes in 2013 and 2014, including their effects on Ohioans in different income groups, can be found in previous Policy Matters Ohio reports: *Cuts and Breaks: Tax Changes in the Mid Biennium Review*, and *Overview: Ohio's 2014-2015 Budget*, October 2013, pp. 3-9.⁵ Policy Matters Ohio also reviewed the recent increase in the Earned Income Tax Credit in *Out-of-Step: More Needed to Make Ohio EITC a Credit that Counts*.⁶

⁴ See Zach Schiller, The Great Ohio Tax Shift, Policy Matters Ohio, Aug. 18, 2014, at <http://www.policymattersohio.org/tax-shift-aug2014#sthash.2C2Obj2z.dpuf>

⁵ See <http://www.policymattersohio.org/cuts-and-breaks-mbr-jul-2014> and <http://www.policymattersohio.org/budget-oct2013>, respectively.

⁶ See <http://www.policymattersohio.org/out-of-step-aug-2014>