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Proposed business tax break won't bring job growth

A new business tax break proposed by Governor John Kasich would not likely lead to significant job creation and would expand opportunities for tax avoidance, Policy Matters Ohio says in a new report.

Kasich has proposed eliminating the Ohio income tax for hundreds of thousands of business owners who pay the tax on their companies' profits. The plan covers owners of businesses with \$2 million or less in annual receipts. It would roughly double, to \$700 million a year, the overall size of a tax deduction for business owners created less than two years ago.

The previous deduction has yet to show results in job growth. Combined, the deductions would drain even more revenue need for public services, while providing dubious benefits, the Policy Matters report says.

The average gain will be under \$1,000 a year, and most owners will get far less – hardly enough to encourage hiring, said Policy Matters Research Director Zach Schiller, who authored the report.

In addition, the expanded tax break would largely go to businesses that do not employ anyone but the owner. These are known as pass-through businesses, because their profits are taxed when they pass through to their owners. Most people reporting income from pass-through businesses are self-employed and have no interest in hiring.

“Business owners expand when they anticipate greater demand for their products or services, not because they have a few hundred dollars more in their wallets,” said Schiller. “Ohio’s own recent history of tax cuts – including the deduction created two years ago for business owners – have not generated the jobs that their authors promised.”

Business representatives have noted the exemption could encourage tax avoidance, because it applies only for owners of entities with \$2 million or less in annual receipts. Companies could break into separate entities or expand use of contractors, with no net gain in jobs.

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