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Senate bill reinforces need for graduated income tax Legislation to “fix” a tax break shows how a progressive tax helps

A bill in the Ohio Senate to change the terms of a tax break approved by the legislature as part of the state budget shows how Ohio’s graduated income tax needs to be strengthened, according to Policy Matters Ohio testimony today.

Senate Bill 208, which is likely to be approved by the end of the month, would “fix” an income-tax break for business owners expanded by the General Assembly in June. This year only, that bill says that 75 percent of the first \$250,000 in business income won’t be taxable. The other 25 percent will be taxed at a flat 3 percent rate. However, that’s a higher rate than what many business owners have been paying under Ohio’s graduated income tax.

Senate Bill 208 would go back to a graduated tax this year, so no business owner would have to pay more than they did before. “This illustrates the important positive role played by the graduated income tax,” Policy Matters Research Director Zach Schiller said in testimony to the Senate Ways and Means Committee.

Like many business owners under the terms of the tax break, most Ohio taxpayers also would find themselves paying more under a 3 percent flat tax. Yet the budget bill calls for a committee to recommend how to transition to a flat-rate 3.5 percent or 3.75 percent tax.

“Just as you are trying to protect business owners in this legislation, low- and middle-income Ohioans deserve the same approach,” Schiller told legislators. “We hope you will keep that in mind as you consider tax legislation in future. Ohio needs a stronger graduated income tax, in which the tax rate goes up as income does.”

The tax break, first created in 2013, has not produced overall job gains for Ohio, though it is costing hundreds of millions of dollars a year that could be invested in schools and other important needs.

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