



Sept. 26, 2016

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Tax Cuts, Flat Tax Aren't the Answer

Policy Matters proposes steps to modernize tax system in testimony

Ohio needs to revise its tax system to provide more revenue needed for public services and reverse the tilt against lower- and middle-income Ohioans caused by tax cuts, Policy Matters Ohio Research Director Zach Schiller told a joint legislative committee reviewing the state's tax system.

After more than a decade of experience with income- and business-tax cuts, Ohio job growth continues to trail the nation's. "The evidence is clear: Tax cuts are not the answer," Schiller testified to the 2020 Tax Policy Commission today.

Among other things, the commission is supposed to recommend how to change the state's graduated income tax into a flat tax. Under the current progressive tax, rates increase with income. "Moving to a flat-rate income tax would be ill advised," Schiller said. "Ohio already slants its tax system against low- and middle-income residents, and a flat-rate tax is likely to further increase that." A flat-rate tax has no connection to state economic performance, Schiller noted, and could hurt the state's ability to finance services going forward. Instead, Ohio should strengthen the income tax, adding more financial resources and making the tax system fairer.

Schiller proposed a number of measures the General Assembly should take to modernize the state's tax system so that it covers today's and tomorrow's economy, including:

- A stronger severance tax on oil and gas produced through hydraulic fracturing;
- Extending the state sales tax so it covers short-term rentals offered through online booking agents;
- Taking steps to try and collect more of the sales tax that is due on Internet and catalogue purchases;
- Broadening the sales tax to covers more services, including lobbying and debt collection, and
- Making the state Earned Income Tax Credit refundable and creating a new sales-tax credit to protect low-income residents from sales-tax increases.

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