

## Taxes and Budget

### **Ohio tax cuts would go mostly to the very affluent**

Budget creates major new tax breaks, scraps committee that reviews them

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Instead of using Ohio's public resources to build strong, resilient communities, the General Assembly approved income-tax cuts that would favor the very wealthiest Ohioans, while providing only modest benefits for moderate-income Ohioans and nothing at all to the state's poorest. Benefiting especially from the elimination of the top bracket of the tax, the most affluent 1% of Ohioans would see an average \$5,400 annual tax cut, adding up to well over a third of the total cuts.

Those are the key conclusions of an examination of the tax cut prepared for Policy Matters Ohio by the Institute on Taxation and Economic Policy (ITEP), a Washington, D.C., nonprofit with a sophisticated model of state and local tax systems. Meanwhile, the budget calls for the creation or expansion of tax breaks worth hundreds of millions of dollars — and the elimination of the Tax Expenditure Review Committee (TERC), which is supposed to review such breaks. Gov. Mike DeWine should veto these changes in tax policy.

The Ohio Department of Taxation has estimated the cost of the income-tax changes at \$1.7 billion over the two years of the upcoming budget.<sup>1</sup> Together with the additional tax breaks, the cost of these tax changes during the biennium will be more than \$2 billion. These funds could be better used to create an inclusive and vibrant recovery for Ohio's people. That includes increasing funding for the public school funding plan also included in the bill and bolstering access and support for child care in the state, among other goals outlined in the People's Budget.<sup>2</sup> Lawmakers could also support a refundable state Earned Income Tax Credit (EITC), which would help get a little more money into the pockets of low-paid working Ohioans.

The budget calls for eliminating the top bracket of the income tax, a move that only benefits those making more than \$220,300 a year. As a result of the elimination of this bracket, income-tax rates will no longer increase once a taxpayer's income reaches \$110,650. Income over that amount will be taxed at 3.99%, compared to the current rates of 4.797% for income over \$220,300 and 4.413% on income over \$110,650. According to the ITEP analysis, the elimination of the top bracket and the lower 3.99% rate account for almost half the total tax cut, or more than \$400 million a year, going exclusively to affluent taxpayers. Gov. George Voinovich created the top bracket in the early 1990s, at which time it carried a 7.5% rate. The

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<sup>1</sup> Ohio Legislative Service Commission, Comparison Document, House Bill 110-134<sup>th</sup> General Assembly, Main Operating Budget Bill, (FY2022-FY2023), June 28, 2021, at <https://bit.ly/3w9Gr1C>. Some 96.64% of that or \$1.64 billion affects the General Revenue Fund, while the rest reduces the Local Government Fund and Public Library Fund.

<sup>2</sup> The People's Budget at <https://www.allinforohio.com/peoples-budget>



bill also includes a 3% rate cut and an increase in the income level at which Ohioans start paying the tax, from \$22,150 to \$25,000 a year.

The bottom 80% of taxpayers making less than \$107,000 a year will get just 23% of the tax cuts. This means that on average, these taxpayers will get a tax cut of just \$43 a year. For those in the middle fifth of the income spectrum, making between \$42,000 and \$65,000, the average cut will be only \$49. Because their incomes are so low, taxpayers with income of less than \$22,150 don't pay Ohio income tax under existing state law. Though these taxpayers on average pay a larger share of their income in overall state and local taxes than the most affluent do,<sup>3</sup> none of them would get a tax cut. The increase in the minimum amount one must earn before income is taxed will reduce taxes for a group of taxpayers, but the savings are relatively small because such taxpayers pay so little in income tax to begin with.

The table below shows how tax filers in different income groups would fare under the fully-phased-in budget bill. The bulk of taxpayers receive barely noticeable cuts. This is how the income tax works: As income grows, it is taxed at a higher rate. That's why upper-income taxpayers are the big winners from income-tax rate cuts. And they certainly are here: The wealthiest 5% of taxpayers, with income over \$228,000, will get nearly three-fifths of the tax cuts. The General Assembly increased the average annual cut for the top 1% from \$612<sup>4</sup> in the House bill and \$1,712 in the Senate bill<sup>5</sup> to \$5,400 in the final budget bill. The biggest part of this is the elimination of the top bracket, which alone will cut taxes on the top 1% by an average \$2,260.

Estimated impact of tax cut by income group							
More than one-third of HB 110 income tax cut goes to wealthiest 1%							
Income grouping	Lowest 20%	2nd lowest 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income range	\$0- <\$23K	\$23K- <\$42K	\$42K- <\$65K	\$65K - <\$107K	\$107K - <\$228K	\$228K - <\$551K	\$551K or more
Average income	\$ 14K	\$ 32K	\$ 53K	\$ 83K	\$ 146K	\$ 327K	\$ 1.447 M
Average change from Senate cut	\$0	-\$42	-\$49	-\$79	-\$186	-\$811	-\$5,400
Average share of tax cut	—	6%	7%	11%	19%	22%	36%

Source: Institute on Taxation and Economic Policy, June 2021. Covers Ohio residents based on estimated 2022 income levels.

The tax reductions in the budget bill come on top of huge tax cuts the richest Ohioans have received over the past 16 years. While lower- and middle-income Ohioans on average paid the

<sup>3</sup> Patton, Wendy, "Rebalance the income tax to build a better Ohio for everyone," Policy Matters Ohio, Oct. 15, 2020, at <https://www.policymattersohio.org/files/research/rebalanceincometax10-19-20.pdf>

<sup>4</sup> Schiller, Zach and Wendy Patton, "House budget chooses tax cuts over more support for key public programs," Policy Matters Ohio, April 15, 2021, at <https://www.policymattersohio.org/research-policy/quality-ohio/revenue-budget/tax-policy/house-budget-chooses-tax-cuts-over-more-support-for-key-public-programs>.

<sup>5</sup> Schiller, Zach and Wendy Patton, "Senate tax cuts would go mostly to the affluent," Policy Matters Ohio, June 3, 2021, at <https://www.policymattersohio.org/research-policy/quality-ohio/revenue-budget/tax-policy/senate-tax-cuts-would-go-mostly-to-the-affluent>

same or more in state and local taxes, the wealthiest 1% received more than \$40,000 a year in tax cuts.<sup>6</sup> Without veto action by DeWine, the legislature will send a windfall to the wealthiest Ohioans while draining revenue the state needs to get back on track after the pandemic. Legislators are asking 80% of Ohio taxpayers to ignore this giveaway in exchange for an average tax cut of \$43.

### **Bill also will expand a slew of tax breaks, reduce transparency**

The bill will eliminate the TERC, created by unanimous votes in both houses of the General Assembly in 2016. The TERC is charged with going over the existing 138 tax exemptions,<sup>7</sup> credits and deductions that add up to more than \$9 billion a year. It hasn't done its job, compiling a weak review<sup>8</sup> of 15 sales-tax exemptions in 2018 and not meeting since. Instead of scrapping this tool, legislators should use it, strengthen it, and provide it with resources<sup>9</sup> to do serious analysis<sup>10</sup> like that done in a number of other states.

The bill also repeals the requirement that business owners claiming the business income deduction, often known as the LLC Loophole, report what business they're in. This, too, will reduce Ohioans' ability to know who is benefiting from this \$1 billion-plus deduction, which eliminates income tax altogether on the first \$250,000 in business income.

The bill contains a slew of new or expanded tax breaks. They add up to hundreds of millions of dollars, though the full cost won't be known for years to come. These special interest loopholes will allow owners to sell interests in their businesses and deduct from their income tax the capital gains that result; authorize various tax breaks to operators and certain suppliers of so-called "mega-projects," a move inspired by Wisconsin's huge incentives to Foxconn that have cost the state \$200 million in infrastructure funding but generated few jobs;<sup>11</sup> and create a new deduction for "venture capital operating companies" though the state is currently paying \$14 million a year in tax credits on a previous venture capital program that didn't produce the necessary returns.<sup>12</sup>

The biggest of the new tax breaks is the repeal of the sales tax on purchases of services from temp agencies, which often pay workers very low wages and offer little job security, undercutting workers throughout the labor force. A recent study by the U.S. Government Accountability Office found that employees at temp firms were among the most likely to depend on public benefits such as food aid in most of the states it surveyed.<sup>13</sup> Policymakers should not promote this business model with a costly giveaway.

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<sup>6</sup> Patton, op. cit.

<sup>7</sup> Tax Expenditure Report: The State of Ohio Executive Budget for Fiscal Years 2022-2023. Ohio Department of Taxation, <https://tax.ohio.gov/static/communications/publications/fy22-23taxexpenditurereport.pdf>.

<sup>8</sup> Kasler, Karen. "Committee Spends More Than A Year Reviewing \$5.5 Billion In Tax Breaks, Recommends No Changes." Statehouse News Bureau, 21 Nov. 2018, <https://www.stateneews.org/post/committee-spends-more-year-reviewing-55-billion-tax-breaks-recommends-no-changes>.

<sup>9</sup> Patton, Wendy. "A Budget for Everyone." Policy Matters Ohio, <https://www.policymattersohio.org/research-policy/quality-ohio/revenue-budget/budget-policy/a-budget-for-everyone>.

<sup>10</sup> "Ohio Legislative Committee Reviewing Tax Loopholes Needs Its Own Staff: Editorial." AP NEWS, 2 Dec. 2018, <https://apnews.com/article/c930d28f935a4e199712eaf06c82b0aa>.

<sup>11</sup> <https://bit.ly/3h2FFSV>

<sup>12</sup> Schiller, Zach and Wendy Patton, Testimony on House Bill 110 before the Senate Local Government and Elections Committee, May 5, 2021, at <https://www.policymattersohio.org/research-policy/quality-ohio/revenue-budget/tax-policy/testimony-on-house-bill-110-before-the-senate-local-government-and-elections-committee>

<sup>13</sup> Federal Social Safety Net Programs: Millions of Full-Time Workers Rely on Federal Health Care and Food Assistance Programs." U.S. Government Accountability Office, 18 Nov. 2020, <https://www.gao.gov/products/gao-21-45>

Among the other new tax breaks are three education-related income-tax credits. They would allow taxpayers to write off home schooling expenses, pay for private-school tuition and to make cash donations of up to \$750 to certain scholarship-granting organizations for K-12 students. Policy Matters previously has described these and other tax breaks included in the budget bill in analyses of the House<sup>14</sup> and Senate budgets.<sup>15</sup>

A better tax policy than the cuts and tax breaks in the budget bill would be to add a refundable option to the state's Earned Income Tax Credit. Now, though on average they pay a larger share of their income in state and local taxes than more affluent residents, many of Ohio's lowest-paid workers get little or no benefit from the state EITC. That's because it is nonrefundable; it only will wipe out income tax liability, not provide a refund like the federal EITC and those in most states.<sup>16</sup> Ohio needs to add a refundable option to its EITC.

Ohio's tax policy since 2005 has stripped the state of needed resources while increasing inequality. Instead of doubling down on that with more income-tax rate cuts, policymakers should reverse course and bolster the income tax on high earners.<sup>17</sup> The tax changes in the budget bill deserve a veto.

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<sup>14</sup> Schiller, Zach and Wendy Patton, "Testimony on House Bill 110 before the Senate Local Government and Elections Committee," May 5, 2021, at <https://www.policymattersohio.org/research-policy/quality-ohio/revenue-budget/tax-policy/testimony-on-house-bill-110-before-the-senate-local-government-and-elections-committee>

<sup>15</sup> Schiller, Zach, "Senate Tax Cuts Would Go Mostly to the Affluent," Policy Matters Ohio, June 3, 2021, at <https://www.policymattersohio.org/research-policy/quality-ohio/revenue-budget/tax-policy/senate-tax-cuts-would-go-mostly-to-the-affluent>

<sup>16</sup> Williams, Kalitha, "Strengthen the Ohio EITC: The Working Family Tax Credit," Ohio Children's Budget Coalition, December 2020, at [https://img1.wsimg.com/blobby/go/cce47a4a-bcd9-4925-a126-8896c52aa15e/downloads/EITC\\_2020\\_OCB\\_Issue%20Brief\\_Final%2012.8.20.pdf?ver=1622136732888](https://img1.wsimg.com/blobby/go/cce47a4a-bcd9-4925-a126-8896c52aa15e/downloads/EITC_2020_OCB_Issue%20Brief_Final%2012.8.20.pdf?ver=1622136732888)

<sup>17</sup> Patton, op.cit.