Policy Matters Ohio

Tax Policy
June 2013

Tax plan still rewards affluent, leaves some of poorest Ohioans paying more

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Last-minute tweaks in the tax plan put forward by Ohio House and Senate Republicans do not significantly change its impact for different income groups. The plan still will reward Ohio's most affluent with average annual tax cuts of more than $6,000 a year, while low-income Ohioans will pay slightly more. That is the conclusion of a new analysis for Policy Matters Ohio by the Institute on Taxation and Economic Policy (ITEP).

Key findings

- The tax plan tweaked by a conference committee still would shift the tax load from upper-income to lower- and middle-income Ohioans.
- The top 1 percent on average would get tax cuts of more than $6,000 a year.
- On average, the bottom fifth of Ohioans pay $12 more a year.

A conference committee met yesterday and made some helpful changes in the tax plan, retaining a credit that wipes out income-tax liability for Ohioans with $10,000 or less in earnings. It also restructured minimum payments under the Commercial Activity Tax. While an earlier version of the plan called for the elimination of a $20 credit that each taxpayer receives for themselves and each dependent, the new plan allows those with income under $30,000 to continue receiving the credit.

The new analysis found that Ohio residents in the top 1 percent of the income spectrum, who earned at least $335,000 in 2012, would still receive a $6,083 a year tax cut on average from the proposal. The middle fifth, who earned between $33,000 and $51,000 last year, on average would see a $9 annual tax cut. Those in the bottom fifth, with income below $18,000, on average would see an increase of $12 a year.

The newest plan makes modest improvements for lower-income Ohioans. ITEP found lower-middle-income taxpayers with income between $18,000 and $33,000 last year on average would receive a $5 tax cut under the latest plan; before the changes they averaged an $11 increase. However, some of the poorest Ohioans still would pay more than they do now, while the most affluent on average would reap thousands of dollars in annual tax reductions. Income tax cuts for many low- and middle-income Ohioans would be small, and much of such gains would be balanced by the impact of sales and Commercial Activity Tax increases, which fall relatively more heavily on such taxpayers.

The tax plan includes an across-the-board 10 percent income-tax cut phased in over three years, and an income-tax exemption for certain business income. ITEP reviewed these two income-tax cuts, an increase in the state sales tax from 5.5 percent to 5.75 per cent, and other key elements of the plan, including a new state Earned Income Tax Credit. For a full description of the elements covered in the ITEP analysis, see data note below.

Table 1 below details how the tax plan would affect Ohio residents at different income levels.

Table 1

Impact of proposed tax plan

2012 income group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income range	Less than $18,000	$18,000 - $33,000	$33,000 - $51,000	$51,000 - $78,000	$78,000 - $143,000	$143,000 - $335,000	$335,000 or more
Average income	$11,000	$25,000	$42,000	$63,000	$100,000	$203,000	$897,000
Tax change as percent of income	+0.1%	0.0%	0.0%	-0.1%	–0.2%	–0.5%	–0.7%
Average tax change	+$12	-$5	-$9	-$34	-$176	-$983	-$6,083

Source: Institute on Taxation and Economic Policy, June 2013 Covers total 2012 income and includes Ohio residents only. Percentages are rounded. See note on data for further description.

"Legislators have made marginal improvements in this tax plan, but they did not change it in a major way," said Zach Schiller, Policy Matters Ohio research director. "This tax plan further shifts the tax load from Ohio's most affluent to low-income residents, while siphoning off revenue that is badly needed for public services. At the same time, it includes new special-interest tax breaks when it should be restricting them." (See "Breaking Bad: Ohio Tax Breaks Escape Scrutiny," Policy Matters Ohio, June 17, 2013 at www.policymattersohio.org/tax-breaks-jun2013.)

A note on the data: The ITEP analysis covers Ohio residents and is based on 2012 income levels. It includes the following components of the tax proposal: The 10 percent income tax rate cut; the business-income tax exemption; the increase in the state sales tax from 5.5 percent to 5.75 percent; the tiered minimum taxes 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, and the new Earned Income Tax Credit, set at 5 percent of the federal credit limited to 50 percent of liability for Ohio Taxable Income above $20,000. The analysis does not include five other changes in sales or income taxes, and two property-tax changes that will affect taxpayers in future. These are either quite small or not easily modeled.

Policy Matters Ohio is a nonprofit, nonpartisan research organization with offices in Cleveland and Columbus. The Institute on Taxation and Economic Policy is a nonprofit, nonpartisan research group in Washington, D.C. ITEP's Microsimulation Tax Model allows it to measure the distributional consequences of federal and state tax laws and proposed changes in them, both nationally and on a state-by-state basis.