

Tax Reform

WHAT HAPPENED WITH TAXES IN THE 2005 STATE BUDGET BILL

- **Personal Income Taxes** were cut by 21% across the board over 5 years.
- **The Tangible Personal Property Tax**, which is paid by businesses on machinery, equipment, furniture and inventory, was eliminated over 4 years.
- **The Corporate Franchise Tax** – the tax on corporate profits -- was phased out over 5 years.
- **The Commercial Activity Tax (CAT)** is now paid by businesses on their Ohio receipts.
- **The Real Property Tax** included an elimination of the 10% reduction on tax bills previously received by owners of commercial and industrial property.
- **The State Excise Tax** on cigarettes was raised by 70 cents to a new rate of \$1.25 per pack.
- **The State Sales Tax** was permanently set at 5.5%, down from the recent 6% but up from the previous permanent rate of 5%.¹

PROBLEMS WITH TAX CHANGES IN THE 2005 BUDGET BILL

- Low and middle income Ohioans pay more of their income in state and local taxes than the most affluent, reinforcing a tax system that places the biggest burden on those least able to pay. Seventy percent of the income-tax cuts will go to the 20 percent highest-earning taxpayers.²
- Wiping out the corporate franchise tax means that highly profitable companies no longer have any obligation to pay taxes based on their profits, violating a bedrock principle of fair taxation.
- Local governments and the state will face long-term budget problems with the income-tax cuts and the CAT. Altogether, the tax changes will cut state revenue by more than \$2 billion a year.³

TAX REFORM ISSUES FACING OHIOANS TODAY

- Ohio needs to move from a regressive tax structure (with lowest income individuals paying the highest share of income) to one that requires business and the affluent to pay their fair share.
- Ohio needs to eliminate tax loopholes instead of creating new ones that reduce the obligations of corporations and Ohio's wealthiest citizens.
- Ohio needs additional revenue to secure the future of education and crucial health and human services, as well as our economy.

¹ Ohio Department of Development. "Major Tax Changes in Ohio Tax Law." July 2005.
<http://www.odod.state.oh.us/taxreform.htm>

² Policy Matters Ohio, "A Step Toward Fiscal Balance: Options for Ohio's Income Tax," April 2008.
http://www.policymattersohio.org/pdf/StepTowardFiscalBalance2008_0423.pdf

³ Executive Budget for FYs 2010 and 2011, p. B4.

<http://obm.ohio.gov/SectionPages/Budget/FY1011/ExecutiveBudget.aspx>

Revenue Fact Sheet (Cont...)

In 2005, the Ohio General Assembly approved tax changes which will cut more than \$2 billion a year from state revenues and will primarily benefit affluent Ohioans and businesses. These tax changes have not improved Ohio's economy. ABLE recommends reversing key elements of the tax overhaul. This would provide more revenue to the state to pay for needed services while also making the tax system fairer and based on the ability to pay.

ABLE recommends:

- **Restoring the tax rate on annual income over \$200,000 – the top bracket — to 7.5%, the level it was prior to the 2005 tax cuts.** This change would affect fewer than 2 percent of Ohioans, while adding roughly \$375 million a year in revenue.
- **Returning other income-tax rates to 2007 levels.** When done along with the increase in the top rate, this would raise another \$780 million this calendar year (The numbers for the taxes cited here could be turn out to be somewhat lower, since the economy has declined and tax collections are falling). This would reverse two of the five years of income-tax cuts.
- **Implement a state Earned Income Tax Credit.** This credit, available for federal taxes, is available to lower- and moderate-income workers (a family with two children is eligible up to income of \$42,000 a year). This would offset much of the income-tax increase that many such taxpayers would experience because of the state income-tax increase. The cost of a 5% state EITC would be around \$70 million.
- **Restoring and strengthening the corporate franchise tax, Ohio's corporate income tax.** This tax, which is being eliminated under tax overhaul, would generate more than \$1 billion a year if it were reinstated at 2005 levels. This would still leave business taxes as a share of state and local taxes way below where they were decades ago, when Ohio's economy was healthier.
- **Means-test the homestead exemption on local property taxes.** This tax break was expanded in 2007, so that all senior citizens were eligible, not just those with low incomes. This exemption should not be provided to affluent seniors who do not need it. Limiting this tax break would save more than \$100 million a year.
- **Eleven other tax breaks which could produce up to \$150 million a year in revenue.** For instance, mortgage brokers and payday lenders pay lower tax rates than banks. Debt collectors and lobbyists do not bill their customers for sales tax. These tax loopholes were identified in a report by Policy Matters Ohio (see <http://www.policymattersohio.org/LimitingLoopholes2008.htm>)

Besides the one-time rainy day fund money, these measures would produce revenue of between \$2.3 billion and \$2.4 billion a year. That is about what the Strickland administration estimates the 2005 tax changes are costing the state annually.

Raising the community voice at the policy level...

Advocates for Budget Legislation Equality * 3500 Lorain Ave. Cleveland, OH 44113 * Contact 216.651.2606

Jason@able.organizeohio.org

[Http://able.organizeohio.org](http://able.organizeohio.org)

Carmen@able.organizeohio.org