



Legislative Brief

March 17, 2015

GOVERNOR KASICH'S BUDGET IS UNFAIR TO MOST OHIO TAXPAYERS!

Governor Kasich mistakenly believes that eliminating the graduated income tax is the secret to a better economy. Most of the academic literature finds that state income tax levels are not an important factor in economic growth. Policy Matters Ohio in an article entitled, *Income tax cuts: Bad medicine for Ohio*, Zack Schiller says, "They haven't worked in Ohio. A 21 % income-tax cut approved in 2005, followed by another 10 percent cut in 2013, left Ohio with 84,000 (1.6%) fewer jobs while the nation gained more than 6 million (4.8%). The Governor's claim that between 1995 and 2010, \$12 billion in income left Ohio for states with lower taxes also was flawed. When people leave a state, they usually leave their job, which often is filled by someone else in Ohio. North Carolina, which had a higher top income-tax rate than Ohio during that period, was the second-top destination of Ohioans leaving the state.

Of the \$19.6 billion in total state taxes in 2007, about 46% came from income taxes where those who make more pay more. Under Kasich's plan 53% of the \$23.3 billion total will come from sales taxes in 2017 versus less than 28% from the graduated income tax. That will be the highest percentage of sales tax revenues going back before 1975, when the Legislative Service Commission started recording budget records. The top tax rate presently is 5.33% paid on income above \$208,500. Three-quarters of taxpayers pay an effective tax rate of 3% or less.

Gene Mumy, economics professor emeritus at Ohio State U., said state income taxes are so much lower than federal taxes that few Ohioans are likely to even notice the cut that they will receive.

Remember Ohio already cut the income tax by 31% since 2005, during the same period the sales tax has risen from 5% to Kasich's proposed 6.25 % which would mean a 25% increase from 2005.

Kasich wants a 23% cut in income tax plus \$700 million in tax cuts specifically aimed at small-business owners who would pay no tax up to \$2 million in receipts. Many of these folks don't believe the money will be large enough to hire additional employees, but they want the tax cut primarily to eliminate all the government paperwork that they have to go through to pay their taxes. Using figures calculated by the Institute on Taxation and Economic Policy, the Cleveland research group estimates that the latest proposed tax changes would leave the bottom 60% of earners, on average, paying more in taxes while the top 5% would see cuts averaging \$890 to nearly \$12,000.

*"All you inhabitants of the world,
you who live on the earth,
when a signal is raised on the
mountains, look!
When a trumpet is blown,
listen!"*

(Isaiah 18:3 NRSV)

LEAVE THE INCOME
TAX RATE ALONE
AND SPEND MORE
ON POVERTY
AND
EDUCATION
PRE-SCHOOL AND
TECHNICAL TRAINING!

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Published By:

Ohio Council of Churches (OCC)

6230 Busch Blvd. Suite 430

Columbus, OH 43229-1879

Phone: 614/885-9590

Fax: 614/885-6097

E-mail: mail@ohcouncilchs.org

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**You are welcome to copy or quote
from the Legislative Brief.
Tom Smith, Editor**

Republicans lawmakers are likely to pass some income tax cut, but the Governor's total plan appears unlikely to pass in its present form. Business groups are opposed to the Commercial Activity Tax increase from 0.20 to 0.32 on all gross receipts except for businesses with \$2 million or less in sales. The Conservative Tax Foundation, based in Washington D.C. sharply criticized parts of the Governor's tax package, particularly the elimination of the state income tax for most small businesses and sole proprietors and the increase in the commercial- activity tax that increases revenues by \$721 million

Republican Rep. Mike Dovilla from Berea noted that a half percent increase in the sales tax combined with their local sales tax would push the total sales tax rate to 8.5% in Cuyahoga Co. The plan also reduces the present tax discount for used cars and watercraft that auto dealers used as an incentive to buyers in purchasing new cars.

Another area of opposition to Kasich's budget comes from oil and gas drillers as well as legislators from those rural districts where many new jobs have been created. The Governor's plan calls for a severance tax of 6.5% when sold at the well- head and 4.5% when sold downstream. This would raise the present tax from \$4 million to \$230 million. In the fiscal year that ended last June, the state sales tax collections totaled \$9.17 billion. In 2017, sales tax collections with the .5% increase would total a projected \$12.42 billion. That's a 35% increase. Meanwhile the income tax revenue would fall from \$8.06 billion to \$6.43 billion by mid 2017. That's a 10% decrease.

The *Cleveland Plain Dealer* in an editorial said, "The tax plan as it stands now would favor better off Ohioans at the expense of low and middle income Ohioans, and that's not fair."

The other area that has many legislators from both parties unhappy is the school funding formula that has left many rural school districts with less money than they had last year. 43% of districts would not receive as much as they had the previous year. Republican legislators under the chairmanship of Rep. Robert Cupp R-Lima are promising that changes will be made in the legislature before the school budget is approved. The only other alternative would be for schools to attempt to pass more levies. Governor Kasich already caused that to happen in his first term in office when he reduced school funding a record amount.

Darrel Rowland, writer for the *Columbus Dispatch* noted that among the 30 districts slated to get the maximum increase of 21% over two years were the home districts of Kasich, Lt. Governor Mary Taylor and the largest district in Senate President Keith Faber's district.

The Governor in his State of the State speech said that they were putting \$700 million in K-12 education, but actually it was \$458 million when you subtract the cut in the tangible personal property tax reimbursement that they no longer provide. A House subcommittee is already changing the formula and Senate President Faber said that he favors the method that they enacted two years ago which guaranteed that no district would receive less funding then they received in the last two years. Under the current budget proposal half of Ohio's 613 local school districts will face cuts, but every charter school will receive an increase. As a share of the state budget, Ohio is spending less now on public education than in 1997, the year that the Ohio Supreme Court ruled our system has unconstitutional. The \$523 million in income tax cut should be spent on schools, food security and healthcare. †††