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**Wealthiest Ohioans Gain Most from Proposed Tax Changes;  
Low- and Middle-Income Families, on Average, Save Little or Nothing**

An analysis of many elements of Governor Bob Taft's tax proposal reveals that the proposal would provide large tax cuts to the wealthiest Ohioans, while providing little or no savings for low-income Ohioans – and would shift the cost of funding of public services away from the wealthiest forty percent of Ohioans and to the bottom sixty percent of Ohio taxpayers (who earn up to \$43,000 a year). When the proposal is fully phased in, the top one percent of taxpayers on average would see a \$7,076 reduction in their taxes, a tax break that amounts to 1.1 percent of their \$643,000 average income. In contrast, the lowest 20 percent of taxpayers, with annual incomes under \$16,000, would see an overall tax increase of \$63 on average. The second 20 percent, with incomes up to \$28,000, would see an overall tax increase of \$68 on average, and the middle 20 percent, with incomes up to \$43,000, would see an overall tax increase of \$12 on average.

Those are some of the conclusions of a new analysis of the tax-cut proposal released today, by Policy Matters Ohio and the Center for Community Solutions, based on calculations made by the Institute on Taxation and Economic Policy (ITEP), a research group in Washington, D.C., with a sophisticated model of the national and state tax systems. This analysis considers the income tax rate cut, the new low-income credit, the sales tax rate increase of ½ cent, the cigarette tax increase, the alcohol tax increase, the kilowatt-hour tax increase and the repeal of the ten percent business real property tax rollback. The analysis does not include an analysis of the effects of proposed elimination of the corporate franchise tax and much of the tangible personal property tax, the proposed new commercial activity tax, or other elements of Gov. Taft's tax plan. Because not everyone smokes, different taxpayers within certain income groups could be differently affected by the tax changes, with smokers paying substantially more than the averages for their income group, and non-smokers paying quite a bit less.

Table 1 below shows how each of the taxes affects different income groups and shows the cumulative effect in the bottom row.

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**Table 1: Who Saves: Impact of Tax Changes Proposed by Ohio Governor Bob Taft  
When Fully Phased In, Using 2004 Income Levels, All Ohio Taxpayers**

| <b>2004 Income Group</b>                                  | <b>Lowest<br/>20%</b>            | <b>Second<br/>20%</b> | <b>Middle<br/>20%</b> | <b>Fourth<br/>20%</b> | <b>Next<br/>15%</b>  | <b>Next 4%</b>        | <b>Top 1%</b>       |
|---|----------------------------------|-----------------------|-----------------------|-----------------------|----------------------|-----------------------|---------------------|
| Income Range  | Less Than \$16,000               | \$16,000 – \$28,000   | \$28,000 – \$43,000   | \$43,000 – \$66,000   | \$66,000 – \$119,000 | \$119,000 – \$274,000 | \$274,000 – Or More |
| Average Income in Group                                   | \$10,000                         | \$22,000              | \$36,000              | \$54,000              | \$85,000             | \$166,000             | \$643,000           |
| <b>State Tax Change as % of Income</b>                    |                                  |                       |                       |                       |                      |                       |                     |
| Income Tax Rate Cut                                       | -0.1%                            | -0.3%                 | -0.5%                 | -0.6%                 | -0.7%                | -1.0%                 | -1.3%               |
| Low-Income Credit   | -0.1%                            | 0.0%                  | 0.0%                  | 0.0%                  | 0.0%                 | 0.0%                  | 0.0%                |
| Both Income Tax Changes                                   | -0.2%                            | -0.3%                 | -0.5%                 | -0.6%                 | -0.7%                | -1.0%                 | -1.3%               |
| Repeal Corporate Franchise, Most of Tangible Property Tax | <b>Not analyzed at this time</b> |                       |                       |                       |                      |                       |                     |
| New Commercial Activity Tax                               | <b>Not analyzed at this time</b> |                       |                       |                       |                      |                       |                     |
| New Sales Tax Rate  | 0.3%                             | 0.3%                  | 0.2%                  | 0.2%                  | 0.2%                 | 0.1%                  | 0.1%                |
| Cigarette Tax Hike  | 0.4%                             | 0.2%                  | 0.2%                  | 0.1%                  | 0.1%                 | 0.0%                  | 0.0%                |
| Other changes**   | 0.1%                             | 0.1%                  | 0.1%                  | 0.0%                  | 0.0%                 | 0.0%                  | 0.1%                |
| <b>Total Tax Change as % of Income</b>                    | <b>0.6%</b>                      | <b>0.3%</b>           | <b>0.0%</b>           | <b>-0.2%</b>          | <b>-0.4%</b>         | <b>-0.8%</b>          | <b>-1.1%</b>        |
| Average Tax Change  | +\$63                            | +\$68                 | +\$12                 | -\$89                 | -\$379               | -\$1,277              | -\$7,076            |

\*\* alcohol tax, kilowatt hour tax, repeal of 10% business property tax rollback

**Source:** Institute on Taxation and Economic Policy, March 2005

The primary reason for the big reduction in the taxes paid by the wealthiest is the proposed 21 percent reduction in Ohio's state income tax. This tax cut would cost Ohio \$2 billion in annual revenue when fully implemented and would go overwhelmingly to the state's most affluent taxpayers. Roughly one in seven of the dollars that the state government would no longer collect would wind up not with Ohio taxpayers but in additional taxes paid to the federal government. The distributional effect of this tax change and the accompanying low-income tax credit are considered in greater detail below, separate from the other tax changes.

The 1 percent of Ohio taxpayers who make at least \$274,000 a year with an average income of \$643,000 would save an average \$8,080 a year if a 21 percent rate cut were implemented. This group would receive 23 percent of all the tax savings – more than half again as much as the total amount received by the bottom 60 percent of Ohio taxpayers, who each make less than \$43,000 a year. Taxpayers who make less than \$16,000 – the bottom 20 percent of taxpayers by income – would save an average of just \$19 a year. That includes what they would gain from the new credit in Gov. Taft's proposal that would eliminate income-tax liability for those taxpayers with Ohio adjusted gross income less exemptions below \$10,000.

While an across-the-board cut may appear to affect taxpayers equally, in fact the most affluent taxpayers would save much more of their income than lower- and middle-income taxpayers. The top 1 percent of taxpayers would save 1.3 percent of their income, while the middle 20 percent would save only 0.5 percent, and the bottom 20 percent just 0.2 percent (including the tax credit).

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That's because richer Ohioans pay steeper rates under the state's graduated income tax. Paying for income-tax cuts of this kind with sales and kilowatt-hour taxes transfers income to rich Ohioans from lower- and middle-income taxpayers.

The 21 percent reduction would reduce state revenue by \$2 billion a year once the proposal is fully implemented. However, nearly one in every seven dollars no longer collected by the state -- \$280 million -- would end up going to the federal government, not Ohio taxpayers. That's because the cut in state income taxes would leave taxpayers with less to deduct on their federal tax forms, forcing them to pay higher U.S. taxes. That is one major reason why such a tax reduction would not bring a stronger Ohio economy.

The table below illustrates how reducing all rates by 21 percent and introducing a new non-refundable tax credit would affect various income groups in Ohio. Unlike the analysis above, the table below does not include the sales tax rate increase of ½ cent, cigarette, alcohol and kilowatt-hour tax increases, or the repeal of the ten percent business real property tax rollback. The effects of the proposed rate cut and tax credit are shown separately. Their combined effect is different than the simple addition of the two because lesser credits would be paid if the rate cuts were instituted than would be under current rates.

| Who Saves?<br>Distributional Effects of Governor Taft's Proposed Income-Tax Cuts<br>All Ohio Taxpayers, 2004 |                    |                     |                     |                     |                      |                       |                     |
|--|--------------------|---------------------|---------------------|---------------------|----------------------|-----------------------|---------------------|
| 2004 Income Group  | Lowest 20%         | Second 20%          | Middle 20%          | Fourth 20%          | Next 15%             | Next 4%               | Top 1%              |
| Income Range   | Less Than \$16,000 | \$16,000 – \$28,000 | \$28,000 – \$43,000 | \$43,000 – \$66,000 | \$66,000 – \$119,000 | \$119,000 – \$274,000 | \$274,300 – Or More |
| Average Income in Group  | \$10,000           | \$22,000            | \$36,000            | \$54,000            | \$85,000             | \$166,000             | \$643,000           |
| <b>Reduce Tax Rates by 21%</b>   |                    |                     |                     |                     |                      |                       |                     |
| Tax Change as a % of Income  | -0.1%              | -0.3%               | -0.5%               | -0.6%               | -0.7%                | -1.0%                 | -1.3%               |
| \$ Average Tax Change  | \$ -11             | \$ -68              | \$ -163             | \$ -300             | \$ -638              | \$ -1,605             | \$ -8,080           |
| % of Tax Cut   | 1%                 | 4%                  | 9%                  | 17%                 | 27%                  | 18%                   | 23%                 |
| <b>Introduce New Nonrefundable Tax Credit</b>  |                    |                     |                     |                     |                      |                       |                     |
| Tax Change as a % of Income  | -0.1%              | 0.0%                | 0.0%                | 0.0%                | 0.0%                 | 0.0%                  | 0.0%                |
| \$ Average Tax Change  | \$ -12             | \$ -1               | \$ 0                | \$ 0                | \$ 0                 | \$ 0                  | \$ 0                |
| % of Tax Cut   | 94%                | 5%                  | 1%                  | 0%                  | 0%                   | 0%                    | 0%                  |

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| <b>Rate Reduction and Introduction of New Low-Income Credit Combined</b> |        |        |         |         |         |           |           |
|--|--------|--------|---------|---------|---------|-----------|-----------|
| Tax Change as a % of Income  | -0.2%  | -0.3%  | -0.5%   | -0.6%   | -0.7%   | -1.0%     | -1.3%     |
| \$ Average Tax Change  | \$ -19 | \$ -68 | \$ -163 | \$ -300 | \$ -638 | \$ -1,605 | \$ -8,080 |
| % of Tax Cut   | 1%     | 4%     | 9%      | 17%     | 27%     | 18%       | 23%       |

Source: Institute on Taxation and Economic Policy, March 2005

Current Ohio law already reduces income-tax rates for all taxpayers when the state is running a budget surplus. Under these reductions, rates were reduced between 1996 and 2000 by a total of more than \$2 billion.

Ohio's graduated income tax is a crucial element in keeping overall state and local taxes from being overwhelmingly tilted against middle class and low-income taxpayers. Other taxes require that Ohio's less affluent citizens pay more as a share of their incomes than richer taxpayers do. As a result, high-income taxpayers pay less of their income on average than Ohioans who make less. The income tax partially offsets this, and requires that more affluent people pay more, as they can afford to do.

The bottom 60 percent of Ohio's workers have seen little or no increase in real hourly pay over the past 25 years. By contrast, the top 10 percent saw 19 percent growth between 1979 and 2003. An across-the-board cut in income-tax rates would increase this growing inequality.

*Policy Matters Ohio is a nonprofit, nonpartisan institute that does research on issues that matter to low- and middle-income Ohioans, on the web at [www.policymattersohio.org](http://www.policymattersohio.org).*

*The Center for Community Solutions helps policymakers, community leaders, and service providers to identify the health, social, and economic challenges facing Greater Cleveland, and to target resources toward sound, cost-effective solutions, on the web at [www.communitysolutions.com](http://www.communitysolutions.com).*

*The Institute on Taxation and Economic Policy is a nonprofit, nonpartisan Washington-based research group, on the web at [www.itepnet.org](http://www.itepnet.org). Its tax model is similar in methodology and data sources to the elaborate computer models used by the U.S. Treasury and the congressional Joint Committee on Taxation, except that the ITEP model adds state-by-state estimating capabilities. The figures show the effects of Gov. Taft's proposals once they are fully implemented. Otherwise, they use 2004 state and local tax laws, at projected 2004 income levels.*

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