Policy Matters Ohio

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The great Ohio tax shift, 2024

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Key findings

Major tax policy changes enacted by Ohio lawmakers since Governor Taft's 2005 State Budget Bill ask families with the lowest incomes to pay more, the wealthy to pay less, and the state to forgo the resources it needs to ensure the prosperity of its residents. Those are the conclusions of a new analysis conducted for Policy Matters by the Institute on Taxation and Economic Policy (ITEP).

Some of the most significant findings include:

- Ohio families with the least resources — those making less than $24,000— pay more annual taxes on average today than they did before 2005.
- The average household among the top 1% of Ohio earners, with incomes above $647,000, now contribute over $52,000 per year less than they once did.
- The result is a loss of about $12.8 billion a year in revenue that could otherwise be used to meet the needs of Ohioans.
- Ohioans of color are significantly more likely to pay a higher share of their incomes in taxes due to recent tax changes, while white Ohioans are more likely to have benefited from them.
- 71% of the total value of personal income tax cuts has gone to the richest 20% of households, with 25% going to the richest 1%.
- Changes to sales taxes, excise taxes, and business taxes have, on average, increased taxes for the bottom 99% of Ohio's households.
- Changes to sales taxes, excise taxes, and business taxes have, on average, allowed the richest 1% of Ohio tax filers to pay nearly $600 per year less than they did before 2005.

Regular Ohioans can bear no more of this type of tax legislation. State lawmakers should ensure that the state has the resources to provide an equitable, thriving society for generations to come by constructing a taxation structure in which Ohioans contribute according to their ability.

Through the state tax system, Ohio can ensure every child gets a world-class education, every community is vibrant and healthy, and every Ohioan, of every race and gender, has a secure economic foundation on which to build our futures. But for a generation, lawmakers have instead used tax policy to create loopholes for the wealthy and influential, and provide special treatment for powerful corporations. As a result, we have lost out on decades' worth of potential in our state, sacrificing our well-being and economic security to help the rich get richer.

The politicians who write state tax policy often justify their decisions with promises that when billionaires' pockets overflow with profits, the benefits will trickle down to working families. Year after year — now decade after decade — the consequences have been clear: The people with the lowest incomes are paying a little more, the wealthy are paying much less, and Ohio has too few resources to serve its purpose: creating a state where everyone has what they need to live a good life.

Figure 1 shows the results of major tax changes in Ohio since 2005. One key consequence of these changes is Ohioans with the lowest incomes on average are paying more in taxes per year. Ohioans making less than $24,000 a year are paying on average $80 more per year than they did in 2005.[1] While Ohioans in the middle three quintiles see tax decreases on average, the declines are modest, amounting to changes of less than 1% of income for all three income groups. An Ohioan making close to the state median household income of $66,900 would see an average tax decrease of $352 a year.[2] That's just under $30 a month. Meanwhile, the wealthiest Ohioans are pocketing tens of thousands of dollars a year from these tax changes. Those in the top 1% of earners, making more than $647,000 a year, now pay on average more than $52,000 less in taxes a year than they did in 2005.

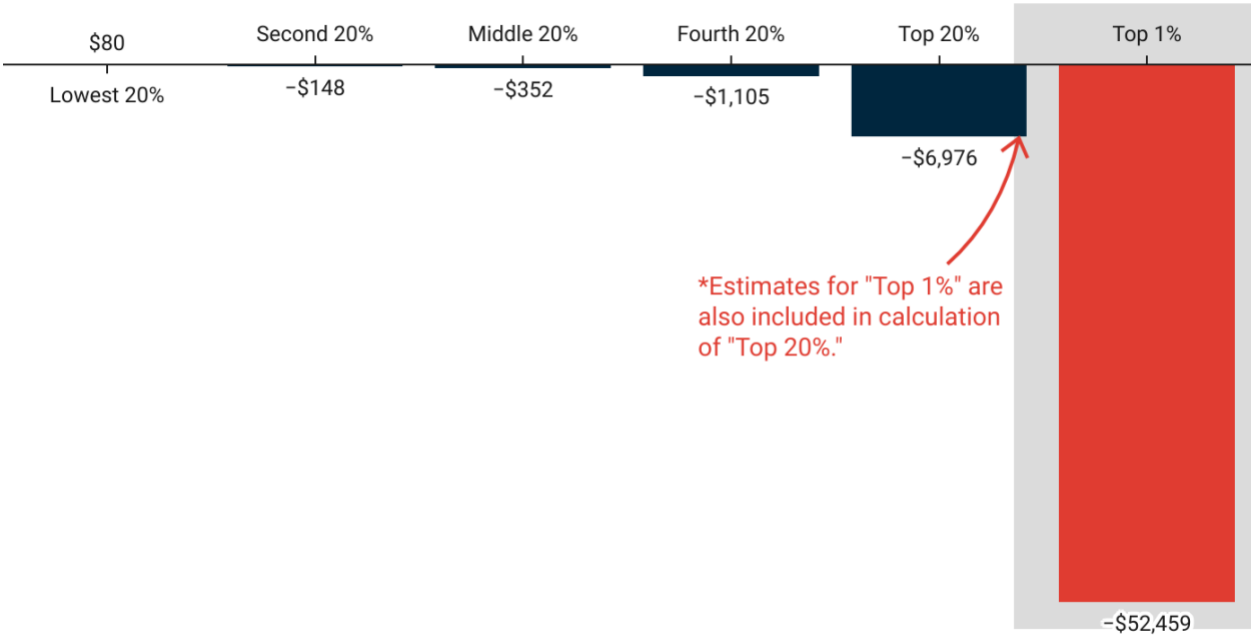
These tax cuts come at a high cost: $12.8 billion in revenue a year. That's close to the entire $11.4 billion in General Revenue Funds the state appropriated to K-12 education in Fiscal Year 2025, or over four times the $2.9 billion the state provides public colleges and universities for instruction. That $12.8 billion is close to half of the $27.9 billion in total tax revenue collected for the state's General Revenue Fund in fiscal year 2024.[3]

[1] Tax change averages are for income groups represented. Individual tax changes within each group may vary.
[2] https://www.census.gov/quickfacts/fact/table/OH/INC110222
[3] July 2024 OBM financial report. Ohio Office of Budget and Management. July 10, 2024.

Figure 1

A generation's worth of tax cuts went well for the wealthiest

Impact of Ohio's major taxation legislation since 2005 by income level



Source: Institute on Taxation and Economic Policy, July 2024, based on estimated 2024 incomes. Includes Ohio residents only. See appendix for further details of the analysis. Note: Estimates for "Top 1%" are also included in calculation of "Top 20%."

Created with Datawrapper

These are some of the most significant findings of a new analysis conducted for Policy Matters by the Institute on Taxation and Economic Policy (ITEP), a non-partisan think tank with a long history of state-level tax analysis. ITEP used a sophisticated model of the state and local tax system to estimate the impacts of major tax legislation since Gov. Taft's 2005 state budget bill. These changes include adjustments to the state's personal income taxes, the restructuring of in-state corporate taxation, and changes made to sales and excise taxes.

Two types of regressive changes

There are two major categories of tax changes included in ITEP's analysis. The most significant is legislation related to personal income tax. This category includes changes to the rates, bracket structures, exemptions, and deductions applying to all forms of personal income, including business income, reported in annual tax filings. The second category of tax changes included in the model are other taxes, including sales taxes, excise taxes, and the structure of corporate taxation. (See appendix for the full list of changes included in the model.)

Personal income tax changes
Ohio policymakers have made significant changes to personal income taxes over the last two decades, lowering rates and making our tax structure more regressive. Since 2005, almost every biennial budget passed by the Ohio state general assembly has included some form of reduction to the personal income tax, generally through broad tax rate cuts and elimination of top tax brackets. Some changes have benefited low-paid Ohioans: Increasing the threshold at which households begin to pay taxes means households with income below $26,050 don't pay state income tax (though they still pay sales and other taxes). The creation of a 30% Earned Income Tax Credit has helped low-paid Ohioans who qualify for it and claim it on their state income taxes (though the impact is limited since the credit is nonrefundable).

Not all taxes are alike

Regressive taxes fall more heavily on those with the lowest income. Sales tax is a good example: The lower your income, the more of it goes to sales tax.

Progressive taxes expect more from people who already have plenty: The wealthiest pay a higher share of their income.

The income tax is the **only** progressive tax in Ohio.

When lawmakers talk about cutting income tax, they often say we'll make up the difference by raising sales taxes. That just shifts more taxes away from rich people and onto the rest of us. Plus, Ohio would have to have the highest sales tax in the country to make up for the income tax cuts some lawmakers are proposing.

Progressive taxes require those who gain the most from our economy to do more to ensure we all have economic stability.

On the other hand, wealthy Ohioans have benefited especially from repeated rate and bracket cuts and the creation of the Business Income Deduction, also known as the LLC loophole. The LLC loophole allows owners of many Ohio businesses to pay no taxes on the first $250,000 of business income and a reduced tax rate on business income above that.[4] Figure 2 shows the estimated impact of major tax changes since 2005 on Ohioans in different income groups.

[4] Zach Schiller, Closing the LLC Loophole. Policy Matters Ohio. May 29, 2019.

Figure 2

Combined impact of Ohio's major taxation legislation

Change since 2005, by income level

						A closer look at the wealthiest 20%		
Income Group	**Lowest 20%**	**Second 20%**	**Middle 20%**	**Fourth 20%**	**Top 20%**	**Least-wealthy 15%***	**Next 4%***	**Top 1%***
Income Range	<$24K	$24K-$47K	$47K-$76K	$76K-$128K	>$128K	$128K-$242K	$242K-$647K	>$647K
Average Income	$14K	$35K	$61K	$98K	$272K	$164K	$358K	$1.55M
Average Tax Change	+$80	-$148	-$352	-$1,105	-$6,976	-$3,027	-$9,602	-$52,459
Change as % of Income	+0.57%	-0.37%	-0.48%	-0.98	-2.40	-1.75%	-2.53%	-3.32%

**Columns to the right of the red line describe portions of the top 20%*

Source: Institute on Taxation and Economic Policy • Created with Datawrapper

As with most income tax cuts, the wealthiest Ohioans disproportionately benefit. Since the income tax is a **progressive tax** — those with higher incomes pay higher rates — a cut to this tax likely means those same individuals who were paying the most will benefit the most. The cuts to Ohio's personal income tax are no exception.

Figure 3 shows who benefitted from the income tax changes by income group. While each income quintile is receiving a tax cut on average, the cut is not evenly distributed. For example, the lowest earning Ohioans, those making less than $24,000 a year, receive an average tax cut of $122 year, just 1% of nearly $13 billion in income-tax cuts. That's about $10 a month. In other words, two decades of massive income tax cuts have on average yielded the lowest-income Ohioan enough to buy lunch once a month.

Figure 3

Impact of Ohio's personal income tax legislation

Change since 2005, by income level

						A closer look at the wealthiest 20%		
Income Group	**Lowest 20%**	**Second 20%**	**Middle 20%**	**Fourth 20%**	**Top 20%**	**Least-wealthy 15%***	**Next 4%***	**Top 1%***
Income Range	<$24K	$24K-$47K	$47K-$76K	$76K-$128K	>$128K	$128K-$242K	$242K-$647K	>$647K
Average Income	$14K	$35K	$61K	$98K	$272K	$164K	$358K	$1.55M
Average Tax Change	-$122	-$476	-$761	-$1,611	-$7,360	-$3,622	-$10,145	-$51,858
Change as % of Income	-0.80%	-1.30%	-1.20%	-1.60%	-2.60%	-2.10%	-2.70%	-3.30%
Share of Tax Cut	1%	5%	7%	16%	71%	26%	20%	25%

**Columns to the right of the red line describe portions of the top 20%*

Source: Institute on Taxation and Economic Policy • Created with Datawrapper

Ohioans in the middle of the income distribution, making between $47,000 and $76,000 a year, benefit more than the poorest Ohioans, but not by much. They receive 7% of the $13 billion, still a disproportionately low share. These Ohioans receive an average tax cut of $761 annually. While certainly a sizeable tax cut, it is not likely to provide significant financial security for an individual in this income group — especially because, as we'll later show, more than half that amount will go to other taxes. This income group, which includes the typical (median) Ohio worker, would on average see an extra $63 or so in their pockets each month. The result of a generation worth of tax cuts for the average Ohioan could help cover a small portion of living expenses: a tank of gas or an electric bill.

Contrast this with the amount given to the wealthiest Ohioans. Among the top 20% of earners, those making at least $128,000 a year, the average tax cut is $7,360 a year. That's enough to purchase two box seat tickets for this year's Ohio State – Michigan football game in Columbus.[5] Cumulatively, the highest-paid 20% captured 71% of the nearly $13 billion in income tax cuts. That's more than double the share that went to the rest of us.

The gains from these tax cuts are even more obscene for the hyper-wealthy. The highest-income 1%, those making at least $647,000 a year, receive an average tax cut of $51,858. With that amount of money, a person could purchase a 2024 BMW 4-Series.[6] As an income group, the top 1% captured a quarter of the $13 billion in income tax cuts, almost equal to the amount shared among the bottom 80%. The average Ohioan in the top 1% receives a **monthly** tax change of $4,321.50 — significantly more than the average cuts seen by the bottom 80% in an entire year: just $2,971.

Sales, excise, and business tax changes

Other regressive changes in the tax code have completely erased the meager benefits of income tax cuts for the lowest-paid Ohioans. In fact, the lowest-income 20% now pay more on average in taxes than they did before the legislature began its tax cutting spree in 2005. Sales, excise, and business taxes now cost that group $200 more each year on average — more than cancelling out the annual average $122 in income tax cuts this group benefits from over the same time period.

Nearly every Ohioan — 99% of us — pay more on average in sales taxes, excise taxes, and business taxes than in 2005. The 1% who are on average paying less? They have an average annual income of $1,547,000. That group now pays on average $600 less in these types of taxes than they did in 2005. Figure 4 shows the impact of major changes to Ohio's sales, excise, and business taxes made since 2005.

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[5] Section 20B-BX, Row 2, from VividSeats.com, as of Sept. 26, 2024.
[6] Willis Kuelthau, "2024 BMW 4-Series Expert Review." *MotorTrend*.

Figure 4

Impact of Ohio's sales, excise, and business tax changes

Change since 2005, by income level

2024 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%	Top 1%*
Income Range	<$24K	$24K-$47K	$47K-$76K	$76K-$128K	>$128K	>$647K
Average Income	$14K	$35K	$61K	$98K	$272K	$1.55M
Average Tax Change	+$201	+$328	+$409	+$506	+$384	−$601
Average change due to adjusted sales and excise taxes	+$176	+$272	+$340	+$433	+$421	+$1,391
Average change due to corporate tax restructuring	+$26	+$56	+$69	+$73	−$37	−$1,992

**Data for the Top 1% are also included in calculations for the Top 20%.*

Source: Institute on Taxation and Economic Policy • Created with Datawrapper

The top 1%'s special status as the only beneficiaries of these tax changes is largely due to 2005's House Bill 66, which fundamentally restructured and lowered corporate taxes. The bill created the Commercial Activity Tax (CAT) and repealed both the Corporate Franchise Tax and the Tangible Personal Property Tax. As a result, Ohio collected less than half the revenue related to corporate activity than it had under the previous two taxes. In essence, the CAT taxes gross receipts, while the previous tax structure focused on profits and physical assets (machinery, inventory, etc.), respectively. Under the current Commercial Activity Tax, businesses are able to exclude the first $6 million of sales from taxation. Any amount above that is subjected to a tax rate of just .26%.[7] With the repeal of the franchise tax, Ohio is one of only six states with no state tax on corporate profits.

Furthermore, the new taxation structure facilitates the transfer of the costs of taxes onto consumers in the form of increased prices on goods. Before 2005, the proportion of corporate taxation that was transferred onto the 60% of households with the lowest incomes amounted to 18% of the two major business taxes that were repealed that year. After the restructuring in 2005 the proportion of those corporate taxes passed on to that same consumer base more than doubled to 31%. In other words, the richest households passed the costs of providing the social and material infrastructure for their business

[7] Changes to Ohio's Commercial Activity Tax. Ohio Department of Taxation. August 14, 2023.

onto lower-income consumers and workers, all while shortchanging state revenue collection by as much as $2.7 billion. This figure, in turn, was barely offset by an increase in sales taxes, gas taxes, and cigarette taxes. These tax changes, while generating over $2.8 billion, disproportionally fell on the households with the lowest incomes.

Costs and consequences

The consequences of these major tax changes since 2005 are an annual revenue reduction of just under $13 billion. This comes at a time where state aid and resources are badly needed in areas like education, childcare, healthcare, transportation, and other social services.

If we had just a portion of the $13 billion in foregone revenue, we could make Ohio a better place for all of us. Our lawmakers could finally fully fund the Fair School Funding Plan to secure a sound education for the next generation of Ohioans. The state could provide more resources to our publicly funded childcare system so parents can afford care for their children and childcare workers can be paid a living wage. State resources could be directed to Medicaid to expanded coverage for Ohio kids and pregnant women with incomes up to 300% of the Federal Poverty Line. The state could also address its inadequately funded transportation budget to supplement historic federal investment in clean public transit as well as local transit spending. These are just a few of our recommendations for the next state budget.[8]

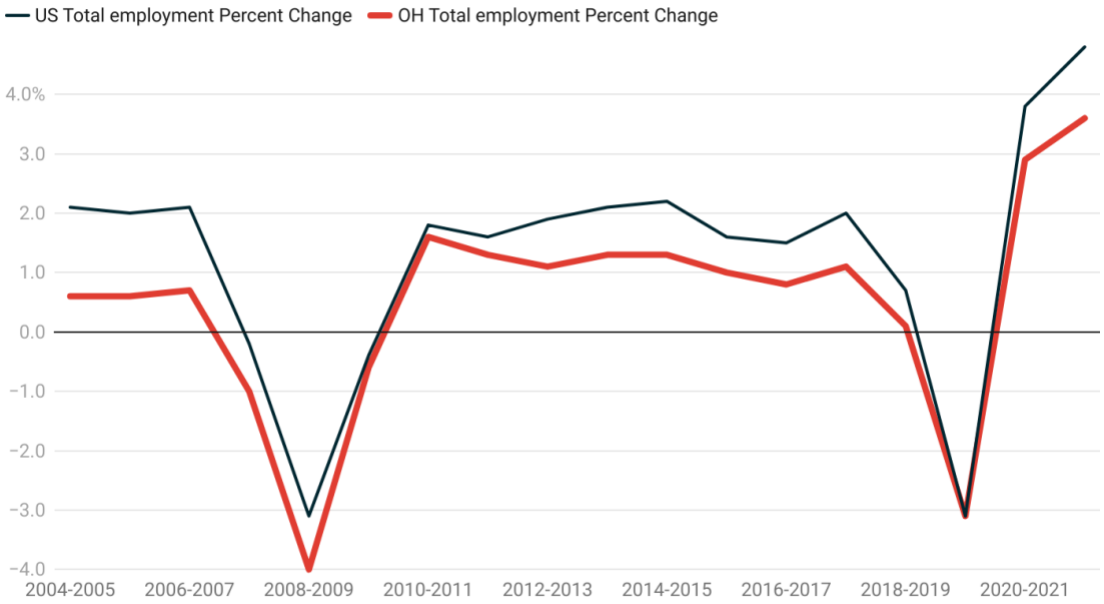
Meanwhile, Ohioans still haven't seen the economic gains promised by advocates of the current tax strategy. They have had their way in the statehouse for years and yet, Ohio continues to fall behind the rest of the nation in terms of economic growth and job creation.[9] Figures 5 and 6 below shows just how poorly Ohio has performed economically compared to national averages since 2005 in both Real GDP and total employment.

[8] Kathryn Poe, *et al*, How the budget can bring out the best in Ohio. Policy Matters Ohio. August 1, 2024
[9] U.S. Bureau of Economic Analysis, "SASUMMARY State annual summary statistics: personal income, GDP, consumer spending, price indexes, and employment" May 23, 2024

Figure 5

Job growth is slower, job losses worse in Ohio compared to U.S.

Percent change in total number of jobs from preceding period, Ohio vs. US, 2004-22

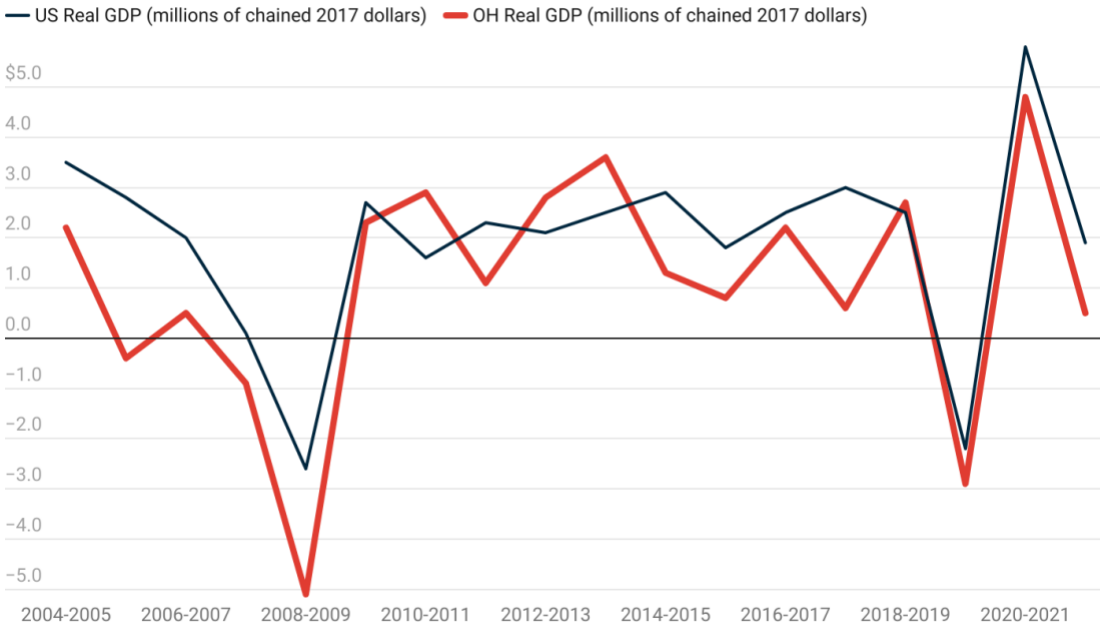


Source: U.S. Bureau of Economic Analysis, "SASUMMARY State annual summary statistics: personal income, GDP, consumer spending, price indexes, and employment" • Created with Datawrapper

Figure 6

Ohio's economy grew slower than US's in all but 4 years since 2005

Real GDP adjusted to 2017 dollars, in millions, Ohio vs. U.S.



Source: U.S. Bureau of Economic Analysis, "SASUMMARY State annual summary statistics: personal income, GDP, consumer spending, price indexes, and employment" • Created with Datawrapper

Seductive fortune-telling about the supposed benefits of recent tax legislation must be confronted with the concrete impact of these changes on regular Ohioans. Ultimately, the people with the lowest incomes are being asked to pay more, the wealthy are receiving handouts, and the state is being drained of the resources it needs to ensure opportunity and prosperity for its residents. Regular Ohioans can bear no more of this type of tax legislation. State lawmakers should ensure that the state has the resources to provide an equitable, thriving society for generations to come by constructing a tax structure in which Ohioans contribute according to their ability.

Policy Matters Ohio would like to thank Miles Trinidad and Aidan Davis at ITEP for their efforts in making this report possible.

Appendix

The analysis presented in this report was derived from ITEP's proprietary microsimulation tax model, which estimates the amount of federal, state and local taxes paid by residents of every state at different income levels under current law and alternative tax structures. The current iteration estimates the impact of Ohio's major tax legislation since HB 66 in 2005 on Ohio tax filers. The model includes:

- Five personal income tax rate cuts (21%, 10%, 6.3%, 4%, and the latest 3% reductions).
- Adjustments to bracket thresholds to account for inflation.
- Condensed income tax brackets (from 9 brackets to 3), including 2023 elimination of top bracket and reduction of top rate to 3.5%.
- Zeroing out tax for taxable income under $26,050.
- The 30% nonrefundable state earned income tax credit.
- Creation and later expansion of the Business Income Deduction covering the first $250,000 in passthrough business income and lowering the rate to 3% on business income over that amount.
- Limitation of the $20 personal exemption credit to those with Ohio Taxable Income of less than $30,000 a year.
- Expanded personal exemptions for those making $80,000 or less.
- The annual Commercial Activity Tax minimum tax is eliminated, for tax periods 2024 and thereafter.
- The annual amount of taxable gross receipts excluded from the Commercial Activity Tax amount is increased to $3 million in 2024, then to $6 million in 2025.
- Means testing of the senior and retirement income credits at $100,000.
- Sales tax increase from 5% to 5.75%.
- Cigarette tax increases.
- Gasoline and diesel tax increases.
- Enactment of the Commercial Activity Tax.
- Repeal of Corporate Franchise Tax.
- Repeal of Business Tangible Personal Property Tax.
- Repeal of 10% property tax rollback for commercial and industrial properties.
- Repeal of the Dealers in Intangibles Tax.
- Enactment of Financial Institutions Tax (FIT).

The model does not include estimates of the Petroleum Activity Tax. It also excludes the elimination of the estate tax, the taxation of casinos and sports gaming, and the new taxation on recreational cannabis sales.