8 Ohio tax facts for Tax Day 2023

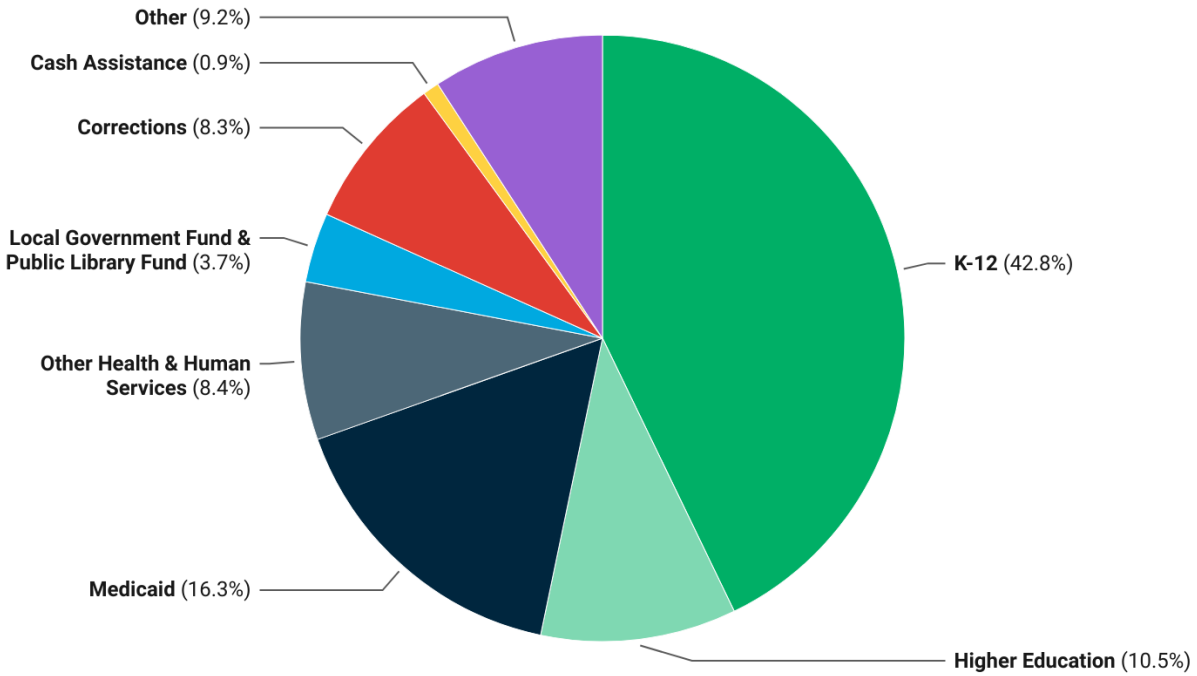
It's Tax Day, and whether you look on this day with appreciation or dread, here are 8 tax truths all Ohioans need to know.

1) Taxes are how we pay for things we can't put a price on.

State taxes are how we pool our resources to pay for projects, programs and services that benefit the public good, support future prosperity and improve well-being as widely as possible.

Ohio's budget supports necessary public services

FY 2022 state spending in the GRF, LGF, PLF and LPEF*, not including funds from federal sources.



**This table shows expenditures or appropriations of state sources credited to the General Revenue Fund, the Local Government Fund, the Public Library Fund and the Lottery Profits Education Fund.*

Chart: Policy Matters Ohio • Source: Legislative Budget Office of the Legislative Service Commission • Created with Datawrapper

They allow us to ensure universal education, emergency services, and the provision of basic human needs by paying for essentials like wage enforcement, food support, adult protective services, and lead abatement. Things neither individuals nor "the market" will solve on their own.

Ohioans value education, health, and human services. And yet Ohio fares poorly when compared to other states on some critical measures of well-being. It's clear legislators could be using our tax revenue to do more for our neighborhoods, more for our kids, more for the elderly, and more for care workers and teachers.

Rather than putting revenue into things that would make life better for Ohioans, Ohio tax legislation since 2005 has led to state revenue reductions of about $8 billion a year.[1] Backed by powerful special interests, these tax cuts actively undercut the state's capacity to respond to our most pressing issues. And those same tax policies have, on average, increased taxes for the bottom 60% of households while providing an average tax cut of nearly $51,000 per year for people with more than $551,000 in annual income.

2) The state income tax is not the only state tax—nor is it the largest.

Income taxes get most of the attention on Tax Day, but the Ohio Office of Budget and Management (OBM) reports 15 state tax categories.[2] Sales and Use taxes (including sales taxes on automobile purchases) make up the largest source of state tax revenue: 47.8% of the total. About 12% of the General Revenue Fund (GRF) comes from business-specific taxes (mostly on business receipts), but Ohio has no corporate profits tax.[3]

Ohio's State level taxes

Fiscal Year 2023 GRF Revenue Estimates

	Amount (millions)	Share of total
Sales & Use tax (non-auto)	$ 11,378.0	40.75%
Personal Income	$ 10,152.0	36.36%
Commercial Activity Tax	$ 2,069.0	7.41%
Auto Sales & Use	$ 1,955.9	7.01%
Cigarette and Other Tobacco Tax	$ 872.3	3.12%
Foreign Insurance	$ 328.1	1.18%
Domestic Insurance	$ 323.6	1.16%
Kilowatt Hour	$ 289.3	1.04%
Financial Institutions Tax	$ 215.0	0.77%
Public Utility	$ 140.0	0.50%
MCF Tax	$ 69.0	0.25%
Alcoholic Beverage	$ 62.0	0.22%
Liquor Gallonage	$ 58.0	0.21%
Petroleum Activity Tax	$ 9.0	0.03%
Other Business & Property Tax	$ 0.2	0.00%

Table: Policy Matters Ohio • Source: Ohio OBM • Created with Datawrapper

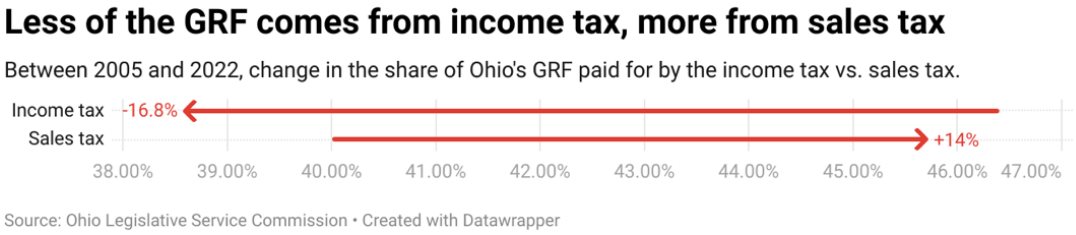
Crucially, the personal income tax — the second largest source of GRF revenue — is the only state-level tax that you pay according to your ability to pay. Every other tax functions more like a flat tax, assessed at a fixed percentage regardless of whether you or your business has $10 in the bank or $10 million. That is, unless a special tax exemption creates a loophole, further reducing what's owed.

It is important to note: Just because we pay the same tax rate does not mean that the tax is felt equally. If you spend most or all your income on necessities then you will pay use, sales, and excise taxes on almost every dollar you make. But there are only so many rolls of toilet paper you can buy; the wealthier you are, the less you spend as a share of your income — and thus, the less you are affected by taxes on consumption. Plus, affluent people spend more of their income on services, which are typically not covered by the sales tax.

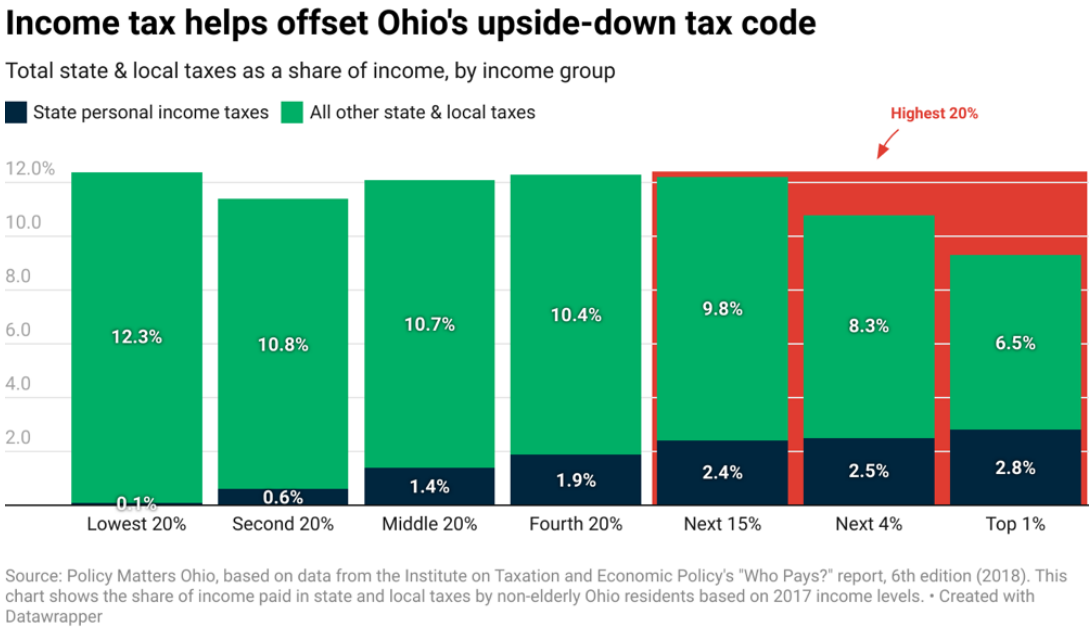
[1] Bervejillo, G. (2022). The Great Ohio Tax Shift, 2022. *Policy Matters Ohio* https://bit.ly/17YearTaxShift
[2] OBM. State Monthly Reports. https://obm.ohio.gov/areas-of-interest/budget-and-planning/06_monthly-financial-reports/06_monthly-financial-reports
[3] Business-specific taxes include the Commercial Activity Tax (CAT), the Petroleum Activity Tax (PAT), the Financial Institutions Tax (FIT), insurance taxes, the Kilowatt Hour Tax, the Public Utility Excise Tax, the Natural Gas Distribution Tax and other Business and Property Taxes.

3) In Ohio, the wealthy pay less taxes as a share of their income than the rest.

This may seem counterintuitive (it is clearly not the story we typically hear about taxes), but the logic is straightforward. For example: To earn $1,000, an Ohioan who is paid minimum wage would have to work about 100 hours, while the richest 1% of Ohioans will be able to make that much in maybe a few hours.[4] Therefore, that $1,000 means very different things to those different income groups, even though it is the same dollar amount. If they are made to pay that amount in taxes, then the wealthy income group is paying remarkably less (as a share of their income and labor) than the poor. This is, in effect, what has happened in Ohio as the state has relied increasingly on sales and use taxes as its largest source of revenue. That shift from the progressive income tax to the regressive sales tax, between 2005 and 2022, is depicted in the figure below.



It is worth restating: Poor Ohioans pay more state and local taxes as a share of their income than wealthy Ohioans do. The graduated income tax is the only thing maintaining some degree of fairness. (The fact that the income tax helps offset some but not all of the imbalance in Ohio's tax code is illustrated in the figure below.)



[4] According to a 2018 study by the Institute on Taxation and Economic Policy (ITEP) — a nonprofit research institute with a sophisticated model of state and local taxation — Ohioans in the highest-income 1% take in more than $617,000 per year ($1,534,000 on average).

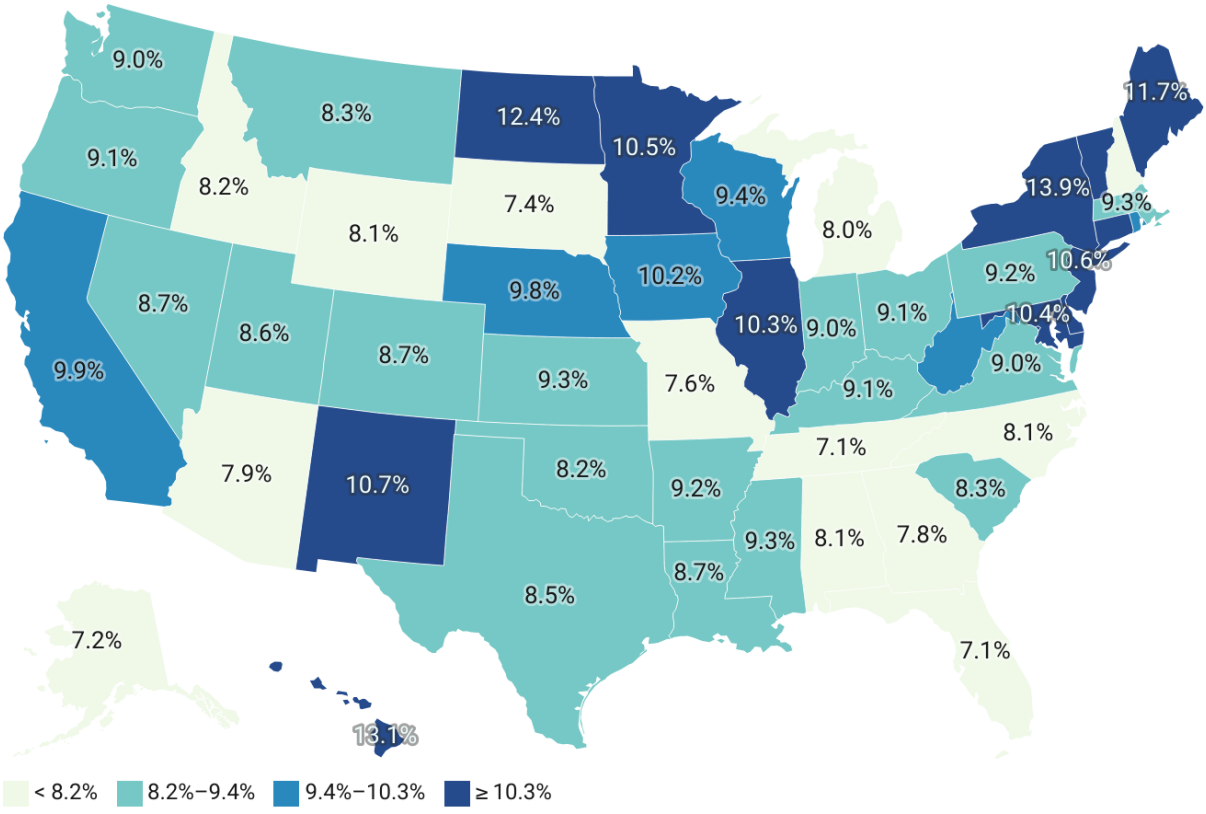
But the wealthiest Ohioans can avoid paying taxes on significant portions of their income if it's classified as something other than personal income, such as business income — and they benefit from a laundry list of tax exemptions, credits and deductions.

4) Ohio's state and local taxes are lower than average.

In 2020, Ohio's per capita state and local taxes were below (ranked 28th) the national average: $4,897 compared with $5,650.[5] In part this results from more than two decades of income-tax cuts. In terms of taxes as percent of personal income, Ohio ranked 27th in the nation at 9.1%. As illustrated by the map below, there is not a large difference between Ohio and a number of states with no income tax (like Nevada, Texas, or Washington). This is because states that do not have income taxes rely heavily on other forms of taxes — such as sales and use taxes, which are disproportionately paid by working-class people.

As a percentage of income, Ohio state & local taxes are lower than the national average

Total state and local taxes as a percentage of income, FY 2020



Figures not pictured: WV 9.5%, NH 7.5%, VT10.9%, RI 9.6%, CT 10.8%, DE 10.4%. National average: 9.4%.

Map: Policy Matters Ohio • Source: Ohio Department of Taxation • Created with Datawrapper

[5] Ohio Department of Taxation. State and Local tax comparisons, for FY 2020. https://tax.ohio.gov/researcher/tax-analysis/tax-data-series/state-and-local-tax-comparison/publications-tds-comparison/tc12fy20

5) Ohio's tax climate is already small-business friendly.

In 2005, the General Assembly phased out two major business taxes, including the franchise tax that covered corporate profits, and replaced them with the new Commercial Activity Tax (CAT) on gross receipts. This shift in the business tax system sharply cut state revenues from business-specific taxes. This means that many corporations do not have to pay the full cost of the public services that make their profits possible.

However, most small businesses pay no or very little CAT. Small businesses with less than $1 million in taxable receipts pay just $150. Those making less than $150,000 pay no CAT whatsoever.

Moreover, Ohio doesn't tax corporate profits and does give certain business owners an enormous deduction, known as the LLC loophole. The loophole, also known as the Business Income Deduction, allows the owners of certain businesses to avoid paying taxes on the first $250,000 in annual business income, and to pay just 3% on any amount above that.

In other words, Ohio's business taxes are low, especially for small businesses. Ohio's total effective business tax rate — combined state and local business taxes as a share of private-sector gross state product — is among the lowest in the nation, considerably lower than the national average (4.1% vs. 4.9%).[6]

6) Ohio spends about $11 billion per year on unchecked tax loopholes.

The LLC loophole is just one of an ever-growing list of tax exemptions, abatements and deductions that have eroded the foundations of Ohio's tax system. These reductions to the state's tax base are known as tax expenditures and, in the current budget cycle, they cost the state about $11 billion per year.[7] That is nearly as much as the state spends on primary and secondary education. There is no specific mechanism for reviewing these expenditures and, unlike most state outlays, tax expenditures do not sunset. As the chair of the Senate Ways and Means committee, Louis Blessing, put it: "[current tax expenditures] represent the ultimate Revised Code roach motel. Once they go in, they never come out."[8]

7) Tax cuts make our state a harder place to live, work, and put down roots.

Tax cuts defund our communities, and they mostly benefit the rich. Ohio has been steadily cutting taxes for decades and over that time we have not seen significant quality-of-life improvements. Currently, the state ranks poorly across a range of

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[6] Ernst & Young, "Total state and local business taxes, State-by-state estimates for FY21," December 2022, at https://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-studies-articles-reports/2209-4097478_50-state-tax-2022-final-e-file.pdf. E&Y produces the study annually for the Council on State Taxation, a business lobbying group

[7] Tax Expenditure Report, The State of Ohio Executive Budget for Fiscal Years 2024-2025.

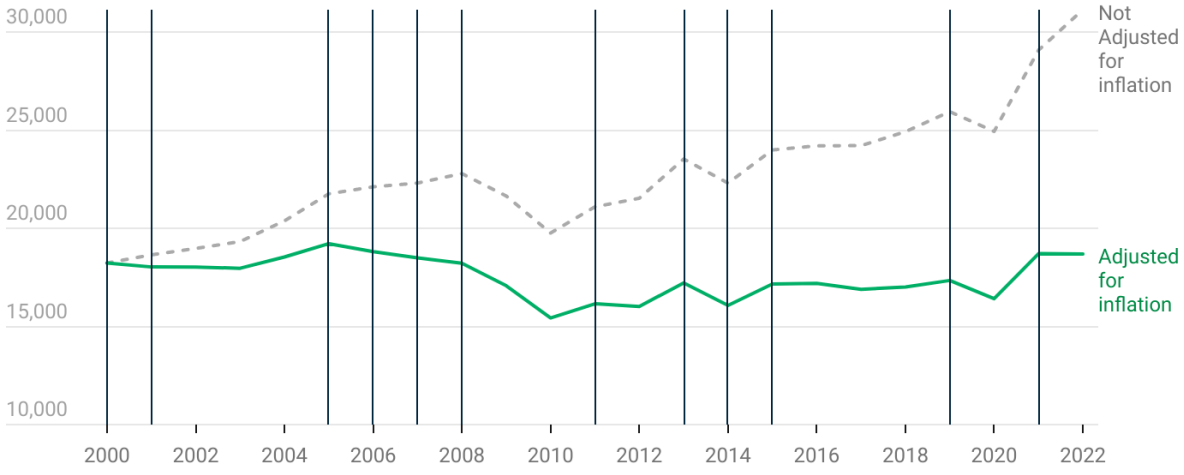
[8] Gongwer (December 7, 2022) "Oil, Gas Drilling Measure Among Nine Clearing Senate," https://bit.ly/3ifVyzo

indicators like infant mortality, overdose death rates, equitable school funding, and child economic security. Over the past two decades, Ohio's share of employment and number of business establishments have steadily declined relative to the rest of the country. In a typical year, Ohio grows slower than the national average.[9] And when recessions hit, they hit harder and last longer than the national average.[10]

The decades-long drive to defund our communities has kept state revenues stagnant in the face of growing problems. State legislators cut taxes 12 times over the past 23 years and have proven that tax cuts do nothing for the economy. (The failure of tax cuts to improve state revenue is illustrated in the figure below.) Instead, these tax cuts do little other than fill the pockets of the wealthy: 76% of the value of income tax cuts since 2005 has gone to the richest 20% of Ohioans, 31% to the richest 1%.[11]

Tax cuts and state revenue

Cuts in top tax rates depicted by vertical bars. Total state-only revenues (in millions)



Inflation adjustment using 2000 dollars.

Chart: Policy Matters Ohio • Source: Legislative Service Commission Historical Revenues, Ohio Department of Taxation • Created with Datawrapper

What tax cuts have achieved is a continued underinvestment in the things that could make Ohio a place where people come to raise their families. People move to where they can live happily and comfortably. They move to places that have great parks, good schools for their kids, strong healthcare systems, and a sense of community that comes from broad-based prosperity. People start businesses where there is trustworthy infrastructure, where there is a strong workforce, and where customers can afford their products. All these factors depend on strong, consistent tax-funded state revenues.

[9] Data from Business Dynamics Statistics — Census Bureau, see: Bervejillo, G, (2022) "Ohio's LLC loophole: Public dollars, private benefits." Policy Matters Ohio. https://www.policymattersohio.org/research-policy/quality-ohio/revenue-budget/tax-policy/ohios-llc-loophole-public-dollars-private-benefits

[10] Shields, M. (2022). "State of Working Oho, 2022. Policy Matters Ohio," https://www.policymattersohio.org/research-policy/fair-economy/work-wages/state-of-working-ohio/state-of-working-ohio-2022#_ftn13

[11] Bervejillo, G. (2022). The Great Ohio Tax Shift, 2022. *Policy Matters Ohio* https://bit.ly/17YearTaxShift

8) “Flat taxes” are a scam.

A flat tax proposal is making rounds at the Statehouse in Columbus. Flat income taxes are a fiscally irresponsible, unfairly skewed, and inefficient use of our resources. They are a handout to the wealthy that comes at the cost of defunding critical needs such as schools, libraries, and other public institutions. If lawmakers pass a flat income tax, wealthy Ohioans will no longer be asked to contribute in accordance with the benefits they have reaped from society or their ability to pay. They will be allowed to harvest the bounty that we have all sowed, like our top-notch workforce that depends on public schools and college, access to innovative universities, emergency services and systems, all without chipping in their fair share.

Comparing Flat Tax States

Compound annual GDP growth rate between 2014 and 2021

State	Tax rate	GDP growth
Illinois	4.95%	3.0%
Pennsylvania	3.07%	2.8%
Indiana	3.15%	3.3%
Michigan	4.25%	3.4%
Ohio	–	3.5%
United States	–	4.1%
Masschusets	5.00%	4.5%
North Carolina	4.75%	4.6%
Colorado	4.40%	5.0%
Utah	4.85%	6.8%

Recently, Massachusetts has added a another tax bracket and Arizona, Idaho, Kentucky, Iowa, Mississippi, and Georgia have either become flat tax states or are in the process of doing so.

Table: Policy Matters Ohio • Source: U.S.Bureau of Economic Analysis. • Created with Datawrapper

In truth, the so-called “flat tax” does not achieve a flat state taxation schedule. That is because in Ohio, the wealthier you are, the less state and local taxes you pay as a share of your income. The personal income tax is the only state tax that is based on your ability to pay. Flattening the income tax makes the whole tax system even more skewed in favor of the rich. If state legislators truly desire to flatten the tax system, they should increase taxes on wealthy Ohioans until they pay the same share of their income in taxes as working-class Ohioans do.

The “flat tax” scheme is just another tax cut for the wealthy, and there is no reason to think it will deliver where others have failed. In other states, flat taxes have not guaranteed economic prosperity. In fact, Midwestern states with flat taxes have tended to grow slower than both Ohio and the national average. As shown in the accompanying table, flat tax states with the highest growth rates had some of the highest tax rates. It is also worth noting that the proposed 2.75% rate is substantially below that of the states depicted in the chart.

None of this is surprising. Economic growth is a function of healthy communities, educated workers, effective infrastructure, and other social factors that are made possible by state revenue. Flat income taxes guarantee a regressive tax structure, are not particularly beneficial to small businesses, are not meaningfully simpler than graduated income taxes, and can cause budget challenges.