Policy Matters Ohio

TESTIMONY
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Tax & Budget

Testimony on SJR 3 before the Senate Ways & Means Committee

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Good morning, Chair Roegner, Ranking Member Williams and members of the committee. My name is Zach Schiller and I am research director of Policy Matters Ohio, a nonprofit, nonpartisan organization with the mission of creating a more prosperous, equitable, sustainable and inclusive Ohio. Thank you for the opportunity to testify. Senate Joint Resolution 3 could weaken Ohio's bond rating. It would constrain the state's ability to fund critical programs, limit policymakers' options during recessions and undermine the democratic process. You should reject it.

In its fiscal note on the resolution, the Legislative Service Commission says the following:

> "If the resolution is approved by the legislature, and if the constitutional change is approved by voters, the impairment of legislative ability to enact increases in state funding from this source of revenue could be a factor in a reduction in the state's bond rating. A lower bond rating for the state would likely be associated with higher borrowing costs. Documentation from Standard & Poor's of that organization's state ratings methodology scores favorably state autonomy to raise taxes with no constitutional constraint or extraordinary legislative threshold (more than a majority) for approval. Constraints on the state's ability to increase revenue are scored unfavorably."[1]

That warning alone should be enough to keep this resolution from moving any further. Why would Ohioans want to pay higher interest rates and limit our ability to make needed investments? Other states with strict supermajority requirements have seen credit ratings chopped. Moody's Investors Service specifically cited supermajority requirements in Arizona and Nevada as reasons for downgrading those states' bonds after the last recession.[2] This is a very real prospect and one that legislators should take seriously.

Under the amendment, the 37 existing income-tax breaks, which collectively amount to nearly $2.5 billion a year, likely would be hard to repeal or tighten. While some of these are useful, that includes the $1 billion business income deduction known as the LLC loophole, an unproductive deduction that has not shown economic results even as it drains revenue that could make preschool available to more children and college affordable to more Ohioans. The House voted to significantly cut that deduction back in 2019 – and the General Assembly is supposed to reexamine it when there is more data.

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[1] Cummins, Philip A., Ohio Legislative Service Commission, Office of Research and Drafting, Legislative Budget Office, Fiscal Note & Local Impact Statement, S.J.R. 3, As Introduced, 133rd General Assembly, https://www.legislature.ohio.gov/download?key=13245&format=pdf See also S&P Global, U.S. State Ratings Methodology, Oct. 17, 2016, Paragraph 25 and Table 3, https://www.standardandpoors.com/en_US/web/guest/article/-/view/type/HTML/id/2342765

[2] Leachman, Michael, Michael Mitchell, Nicholas Johnson and Erica Williams, "Advancing Racial Equity with State Tax Policy," Center on Budget and Policy Priorities, Nov. 15, 2018, Footnote 104, https://www.cbpp.org/research/state-budget-and-tax/advancing-racial-equity-with-state-tax-policy

SJR 3 safeguards an upside-down tax system under which low-income Ohioans pay nearly twice as much of their income in state and local taxes as the top 1% do.[3] These Ohioans, who average more than $1.2 million a year, on average received a $40,000 a year tax cut from the state's tax reductions over the past 15 years.[4] That's who this proposal protects.

In every recession during the past 40 years, under both Democratic and Republican governors, Ohio has raised taxes at least temporarily to make up for lost revenue. When the next recession comes, under this proposal, the income tax will be effectively off limits—and so only more regressive taxes and fee increases, falling harder on low- and middle-income Ohioans—will be possible. That will further tilt our tax system against the less affluent.

This amendment also would limit lawmakers' options during recessions. Under the two-thirds vote required by SJR 3, the Senate probably wouldn't have been able to delay a 2009 income tax cut during the Great Recession. That would have forced lawmakers to add to the $1.8 billion in cuts they made to K-12 education and other important programs. The best approach to combating recession-induced budget gaps balances targeted reduction in expenditures with revenue increases. Supermajority rules encourage states to close gaps mostly if not entirely through spending cuts, which can inhibit a recovery.[5] They also have contributed to budget struggles and underinvestment in public education in states such as Arizona and Oklahoma.[6]

A supermajority rule blocks the will of the majority to meet the needs of communities and the demand for public services. It is fundamentally undemocratic. The first supermajority requirement was adopted in 1890, when wealthy white landowners in Mississippi won it to solidify white dominance and protect themselves from potential tax increases. Arkansas and Louisiana also approved these requirements during the Jim Crow era. These made it more difficult to fund schools and public services.[7]

Today in Ohio, two decades after the Supreme Court ruled our school funding formula unconstitutional, members of the General Assembly are still working on a plan to fix it. Approval of SJR 3 would make that effort even more difficult.

This proposal is based on the erroneous notion that cutting state income taxes is the route to prosperity. Ohio's own economic performance over the past 15 years, when the income tax has been slashed, belies that idea. States without income taxes don't do better than those with higher income-tax rates.[8]

Ohio's income tax is the only major tax based on the ability to pay. This principle was embraced by founders of our democracy, as well as the intellectual father of capitalism, Adam Smith. As your income goes up, you pay a higher rate. The tax supports public education and a myriad of local services, from public safety to libraries. Making it especially difficult to raise the income tax is not in the best interests of Ohio.

Thank you for this opportunity to testify. I will be glad to take any questions.

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[3] Patton, Wendy, "Ohio State and Local Taxes Hit Poor and Middle-Income Families the Hardest," Policy Matters Ohio, Oct. 17, 2018, at https://www.policymattersohio.org/research-policy/quality-ohio/revenue-budget/tax-policy/ohio-state-and-local-taxes-hit-poor-and-middle-income-families-the-hardest
[4] Patton, Wendy and Zach Schiller, "Overhaul: A Plan to Rebalance Ohio's Income Tax," Policy Matters Ohio, June 25, 2018, at https://www.policymattersohio.org/research-policy/quality-ohio/revenue-budget/tax-policy/overhaul-a-plan-to-rebalance-ohios-income-tax
[5] Leachman, Michael, Nicholas Johnson and Dylan Grundman, "Six Reasons Why Supermajority Requirements to Raise Taxes are a Bad Idea," Center on Budget and Policy Priorities, Feb. 14, 2012, at https://www.cbpp.org/research/six-reasons-why-supermajority-requirements-to-raise-taxes-are-a-bad-idea
[6] Perry, Gene, "SQ 640 Has Made Oklahoma Ungovernable," Oklahoma Policy Institute, Updated May 2, 2019, at https://okpolicy.org/sq-640-made-oklahoma-ungovernable/
[7] Leachman et. al. "Advancing Racial Equity," Op. Cit.
[8] Davis, Carl and Nick Buffie, "Trickle-Down Dries Up: States Without Personal Income Taxes Lag Behind States With the Highest Tax Rates," Institute on Taxation and Economic Policy, Oct. 26,2017, https://itep.org/trickle-down-dries-up/