



Revenue & budget

Testimony on House Bill 110 before the Senate Finance Committee

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Good morning Chair Dolan, Vice-Chair Gavarone, Ranking Member Sykes and members of the committee. I am Wendy Patton, senior project director at Policy Matters Ohio, a nonprofit, nonpartisan research organization that is building a more prosperous, equitable, inclusive and sustainable Ohio. Thank you for this opportunity to testify today on the 5%, \$874 million income-tax cut proposed in your budget bill. This money will not significantly benefit most Ohioans and the cut will drain resources needed for good schools, better child welfare services and other public services that benefit all Ohioans. Tax cuts are not needed and Ohio's lack of investment in communities after the 2008 recession helped create a slow, uneven recovery. The only tax cut that this body should consider is one that could actually put money into the pockets of Ohio's lowest-paid workers. A refundable option to the state Earned Income Tax Credit would do just that, concentrating returns to working families that have been the hardest hit by the recession.

The Institute on Taxation & Economic Policy (ITEP), a nonprofit with a sophisticated model of state and local tax systems, examined the 5% income-tax cut. The table below shows how tax filers in different income groups would fare. The bulk of taxpayers would get benefits so small they would barely be noticeable. This is how the income tax works: As income grows, it is taxed at a higher rate. That's why upper-income taxpayers are the big winners from income-tax rate cuts.

Estimated impact of proposed tax cut by income group							
5% Income tax cut proposed in Senate Budget Bill (HB 110)							
Over three quarters of the benefit goes to the highest-income quintile							
Income grouping	Lowest 20%	2nd lowest 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income range	\$0- <\$23,000	\$23,000- <\$41,000	\$41,000 - <\$64,000	\$64,000 - <\$105,000	\$105,000 - <\$221,000	\$221,000 - <\$526,000	\$526,000 or more
Average income	\$ 14,000	\$ 32,000	\$ 52,000	\$ 82,000	\$ 143,000	\$ 314,000	\$ 1,332,000
Average tax change from proposed 5% state income tax cut	\$0	-\$4	-\$22	-\$59	-\$152	-\$385	-\$1,712
Average share of total value of tax cut	—	1%	6%	16%	31%	21%	25%

Source: Institute on Taxation and Economic Policy, June 2021. Covers Ohio residents based on estimated 2022 income levels. ITEP has updated its underlying parameters to allow for modeling revenue and incidence changes in 2022.

Under existing Ohio law and the Senate bill, taxpayers with income of less than \$22,150 don't have to pay Ohio income tax. Though these taxpayers on average pay a larger share of their income in overall state and local taxes than the most affluent do,¹ none of them would benefit from the 5% cut.

The three-fifths of taxpayers who are paid less than \$64,000 a year would get just 7% of the value of the total tax cut. Those in the middle fifth of the income spectrum, making between \$41,000 and \$64,000 a year, on average would pay \$22 less a year.

Nearly half of the tax reduction would go to those in the top 5%, who are paid more than \$221,000 a year. The top 1%, who have income of at least \$526,000, would average a cut of \$1,712 and receive a quarter of the tax reductions. The tax reductions in the Senate bill come on top of huge tax cuts the richest Ohioans have received over the past 16 years. While lower- and middle-income Ohioans on average saw little change or paid more in state and local taxes, the top 1% received more than \$40,000 a year in tax cuts.

Senate Republican President Matt Huffman claimed in a news conference this week that income-tax cuts would incentivize Ohioans to go to work. However, even full-time jobs in many of the occupations hardest-hit in the pandemic pay so little that workers would receive no tax cut at all under the Senate plan. For example, the median income of a fast food/quick server is \$20,363, while for waiters and waitresses, it's \$19,884. Those making a bit more will still get little benefit from the Senate plan. Such workers may have left the labor force because they lack child care for their children, or they continue to have health-care concerns. But a 5% cut in the income tax will not help them because so many are paid too little to be subject to the income tax even though they are contributing to state and local revenue through other taxes and fees.

A better tax policy than a rate cut would be to add a refundable option to the state's Earned Income Tax Credit. Though on average they pay a larger share of their income in state and local taxes than more affluent residents, many of Ohio's poorest workers get little or no benefit from the state EITC. That's because it is nonrefundable; it only will wipe out income-tax liability, not provide a refund like the federal EITC and those in most states.

State resources are also needed to ensure an excellent public school in every ZIP code, properly funded child protective services in all communities, and greatly expanded affordable child care for working families.

We need tax and budget policy that actually benefits Ohio's working people, families and students. The Senate budget bill doesn't do that: Trickle-down priorities leave out too many Ohio families and communities.