



THE BUCKEYE INSTITUTE

Ohio Should Join the Flat-Tax Revolution

Interested Party Testimony
Ohio Senate Finance Committee
Ohio House Bill 33

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Thank you Chair Dolan, Vice Chair Cirino, Ranking Member Sykes, and members of the Committee, for the opportunity to testify regarding tax policies in House Bill 33.

My name is Greg R. Lawson, I am a research fellow at **The Buckeye Institute**, an independent research and educational institution—a think tank—whose mission is to advance free-market public policy in the states.

As The Buckeye Institute recently observed in *Crain's Cleveland Business*, the country is in the midst of a **flat-tax revolution**. Nine states have abandoned progressive, graduated income taxes that punish wage earners for being successful. Five more states are currently poised to join that revolution. Ohio should, too.

The Ohio House deserve credit for attempting a tax cut in its budget proposal, but the tax policy that emerged is underwhelming. Flush with a **significant surplus**, Ohio can afford responsible tax reform that puts its taxpayers first.

House Bill 1 would reduce and flatten the state income tax to 2.75 percent on income greater than \$26,050. Unfortunately, the bill left the top tax rates virtually untouched, creating too much disparity between lower income and higher income rates and putting future tax reform at risk. The House also failed to index the tax brackets to inflation, greatly reducing the value of consolidating the two bottom brackets. Over time, this failure will become a latent tax increase.

To fix these shortcomings, the Senate should follow the House's move to the flat 2.75 percent rate and index the brackets to inflation. According to the **Tax Foundation**, at 2.75 percent, Ohio would have the lowest flat tax in the Midwest and the second lowest in the country. These improvements can be phased in using revenue triggers to ensure fiscal responsibility in future budgets.

A Flatter, Lower State Income Tax

A flat tax follows The Buckeye Institute's **four principles** of good tax policy.

It is pro-growth because it reduces tax rates on two key components for prosperity and job creation: investment and labor. A stronger economy with lower taxes and more job growth will make Ohio more competitive and attractive to businesses and their employees—an important edge in a transitioning global economy and tight labor market.

It improves transparency by allowing taxpayers to easily identify what tax they owe. It promotes equity because it treats similarly-situated taxpayers similarly; it does not tax income multiple times; and it does not favor some industries over others. And it comports with tax simplicity by incentivizing the elimination of many unnecessary tax loopholes that undermine the first three principles of sound tax policy.

These reforms will help the **2.2 million** Ohio workers employed by small businesses with 500 employees or less that make up nearly 45 percent of all Ohio jobs. They will also help those same

small businesses by reducing their overall tax and tax-compliance burdens. And that help is sorely needed inasmuch as Ohio hammers small businesses with the nation's **worst** local tax regime—the municipal income tax.

The Senate should also close more tax loopholes and announce the General Assembly's goal to eventually eliminate the state income tax entirely. The budget should include **revenue triggers** to ensure that any further rate reductions may only happen when specified revenue goals are met. This fiscally responsible provision would act as a tax cut circuit breaker to prevent the nightmare budget scenarios that **Kansas** encountered when it refused to right-size its budget while cutting taxes.

Ohio has a golden opportunity to enact overdue, comprehensive tax reforms and join a flat-tax revolution that will benefit taxpayers and small businesses, and make the state more competitive. It should take it.

Thank you for your time and attention. I would be happy to answer any questions that the Committee might have.



About The Buckeye Institute

Founded in 1989, The Buckeye Institute is an independent research and educational institution – a think tank – whose mission is to advance free-market public policy in the states.

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