

Testimony to Ohio House Finance Committee March 25, 2015

My name is Gavin DeVore Leonard. I am the State Director of One Ohio Now, a statewide coalition of 100 health and human service, labor, and advocacy organizations whose members include over 1 million Ohioans. We believe that great public services strengthen our communities and we need revenue to pay for those services.

I am here to testify today on the personal income tax changes proposed by Governor Kasich in his Executive Budget. I'll share what we feel is relevant context in considering such major changes, both in terms of what has happened over time and how the personal income tax changes fit into the full package.

We've worked to participate fully in dialogue about an adequate and equitable revenue system that meets Ohioans' needs for a high quality of life – including great schools, roads, public safety, and much more. My goal with testimony today is to contribute to the discussion about our state's future.

We agree with some pieces of the Governor's budget proposal.

- Tax Expenditure Review
- Sales Tax Base Expansion
- Commercial Activity Tax Increase
- Severance Tax Increase
- Investments in childcare, developmental disabilities, and other items such as means testing.

There are also key components of the proposal that we disagree with.

- Personal Income Tax Cut
- Sales Tax Increase
- Business Income Tax Cut

Our biggest concern is the personal income tax cut.

We believe this component of the proposal is misguided and requires more deliberation based on the facts, including Ohio's experience over the past 10 years.



Five major reasons to reconsider the proposed income tax cut.

1 Because the research says it won't work (or at best is unclear).

- Six out of eight major peer-reviewed academic studies done since 2000 found that state personal income tax levels do not affect economic growth.
- What's been cited so far raises serious questions.

➔ In the rollout of the budget proposal, a quote was used stating that over 50 studies show higher state tax rates on income and business lead to fewer jobs and growth. Of the articles cited, 23 have nothing to do with state tax policy, 5 have nothing to do with tax policy, and others are not peer-reviewed and/or lack empirical analysis.

➔ In recent testimony, Commissioner Testa's Attachment C cited 10 reports "on income tax cuts and economic growth." Some are not peer-reviewed, many cite data and sources that are decades old, and one is all about Canada.

➔ Claims and predictions that income tax cuts have made or will make states more competitive have simply not panned out and require closer scrutiny.

➔ Claims that tax rates – in particular state personal income tax rates – are leading to Ohioans leaving the state are highly inaccurate based on the research.

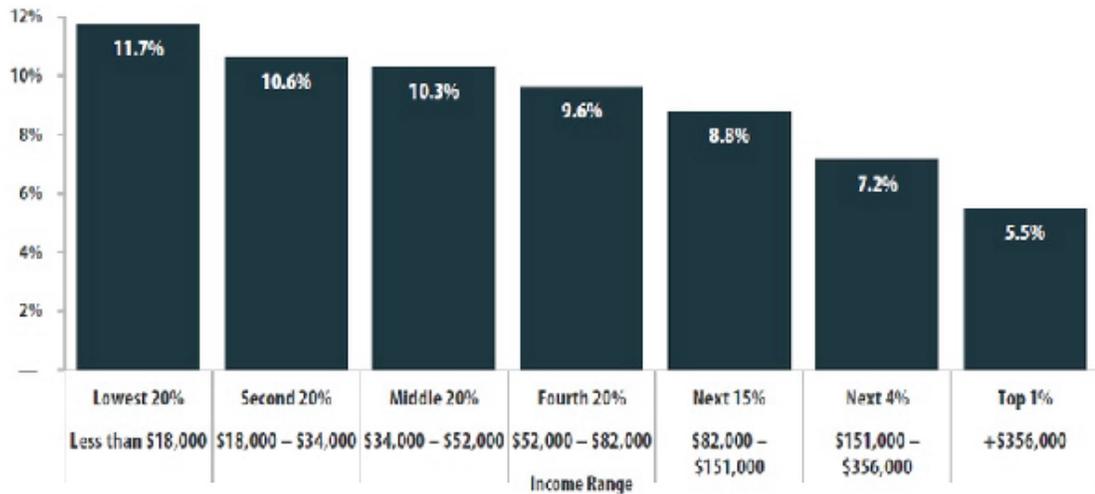
2 Because tax shifting isn't fair.

- Making our revenue system even more regressive means that lower and middle-income Ohioans will pay an even greater share of their income toward taxes. Winter coats, car repairs, and other necessary items will get more expensive for those who can least afford it.



Ohio State & Local Taxes in 2015

Shares of family income for non-elderly taxpayers



Source: ITEP, Who Pays Jan. 2015. <http://bit.ly/17d01c4>

- Thorough modeling of the full package presented by the Governor shows that many Ohioans will actually pay more as a result of the plan. Commissioner Testa's cited Attachment G has numerous flaws.

Impact of proposed tax changes							
	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income range	Less than \$20,000	\$20,000 - \$37,000	\$37,000 - \$58,000	\$58,000 - \$89,000	\$89,000 - \$163,000	\$163,000 - \$388,000	\$388,000 or more
Average income	\$12,000	\$28,000	\$47,000	\$72,000	\$115,000	\$234,000	\$1,071,000
Tax change as % of income	0.9%	0.4%	0.1%	-0.0%	-0.2%	-0.4%	-1.1%
Average change	\$116	\$122	\$64	-\$27	-\$219	-\$890	-\$11,906

Source: Policy Matters Ohio Feb. 2015 <http://bit.ly/1EL6kOr>



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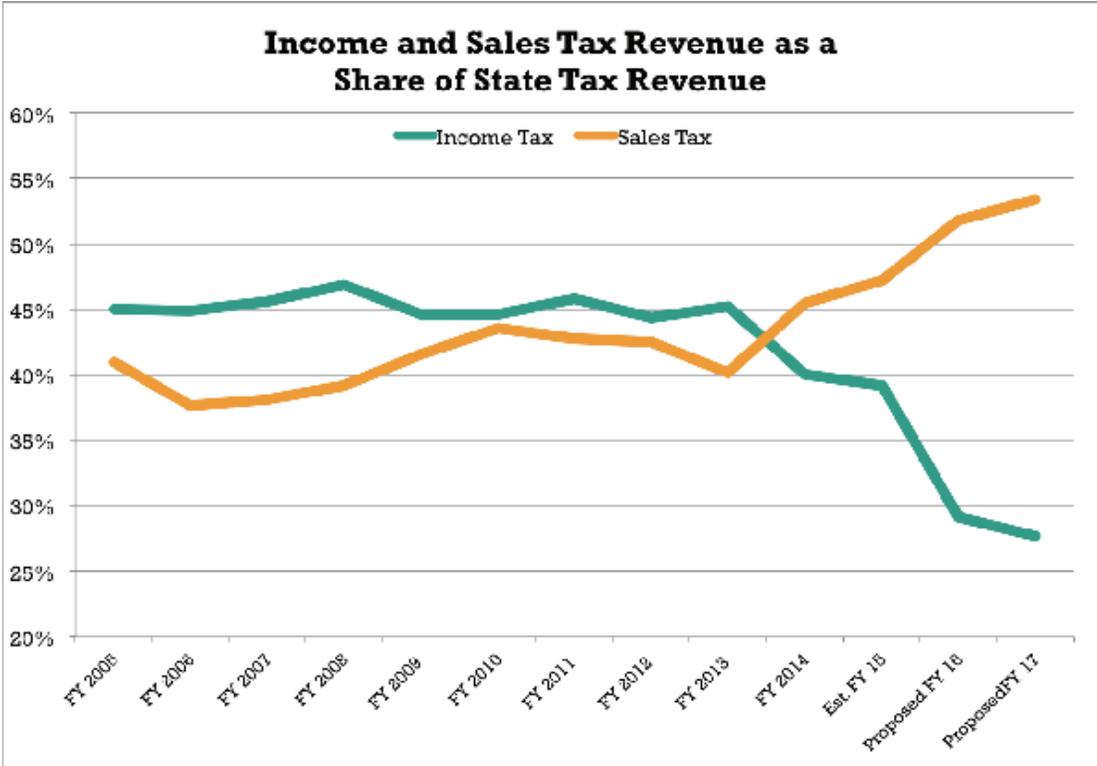
Because there are real concerns about the fiscal impact.

- **Bond Buyer** cites questions from Fitch Ratings and Moody’s Investors Service about tax reform proposals, saying “the state is in the midst of a major tax overhaul that analysts warn could derail the state’s structural balance.”

“Like Fitch, Moody’s warns that tax cuts could pressure the state’s budget. ‘Potential revenue reductions from tax reform could threaten the state’s balanced financial operations,’ Moody’s said in its ratings report.”

Bond Buyer
Ohio, Plotting Tax Reform, Readies Bond Deals
 Dec. 30, 2014 <http://bit.ly/1ARdfX3>

- Sources like **Standard and Poors’** Ratings Services are raising important questions about how “inequality reduces overall economic growth” and state revenues.





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Because there are other, better ways to improve our state and create good jobs and economic growth.

- Tax policy, especially personal income tax policy, dominates the discussion about how to improve Ohio, yet there are many more important areas that should be discussed. In particular, investments in education and infrastructure are unquestionably important for business and individual success.

Median wages are substantially higher in states with better-educated workers

Relationship between state median hourly wage and share of state's workforce with a bachelor's degree or more education, 2012



Source: EPI, "A well Educated Workforce is Key to Prosperity," Aug. 2013. <http://bit.ly/1ChicaL>

- Surveys and studies of business priorities consistently find that education and infrastructure are the most important needs for a strong job creation climate.

“The personal income tax rate is NOT one of the critical factors considered when making a final site selection. There are many more important factors...”

Manufacturer’s Policy Alliance Testimony
Ways & Means Committee, Feb. 25, 2015

- Tax cuts mean foregone revenue that could be invested in the great public services that strengthen our communities – things like libraries, parks, and firefighters that ensure a high quality of life for everyone. If we did not have needs or important investment opportunities, it would be a different story, but other states are building the foundation for a 21st century economy with things like universal pre-K education, expanded public transportation options that young people want and more.



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Because we've been trying this and it hasn't worked.

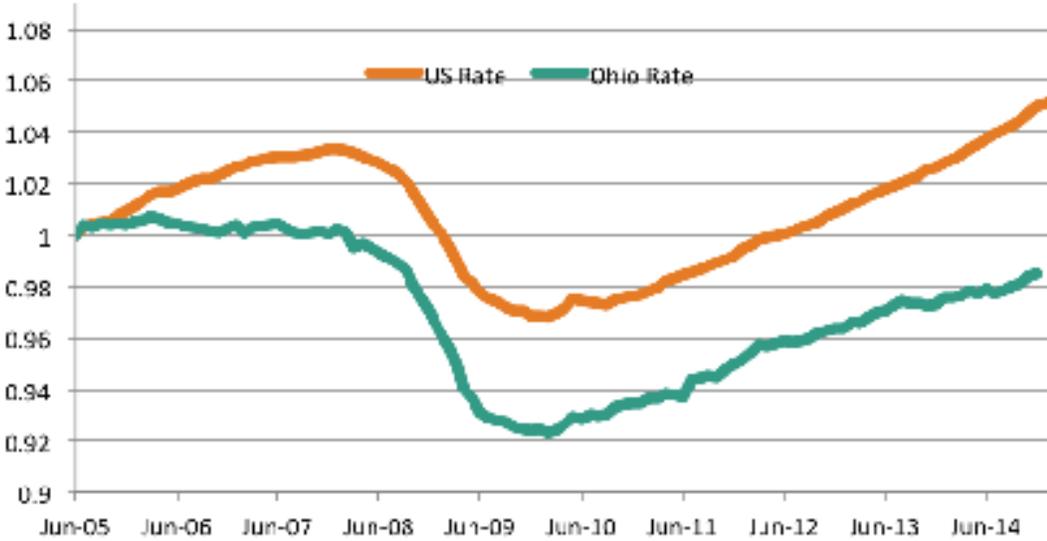
- Since 2005, Ohio has shifted taxes substantially, resulting in many Ohioans paying more taxes in hopes of job creation and economic growth - it has not panned out.

Impact of Ohio tax changes on different income groups, 2005 to date							
	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income range	Less than \$19,000	\$19,000 - \$34,000	\$34,000 - \$54,000	\$54,000 - \$82,000	\$82,000 - \$151,000	\$151,000 - \$360,000	\$360,000 or more
Average income	\$11,000	\$26,000	\$44,000	\$66,000	\$106,000	\$217,000	\$1,006,000
Average tax change	+\$138	+\$142	+\$65	-\$95	-\$609	-\$2,919	-\$20,477
Tax change as share of income	+1.2%	+0.5%	+0.1%	-0.1%	-0.6%	-1.3%	-2.0%

Source: Policy Matters Ohio Aug 2014, <http://bit.ly/1pWbp0r>

- We've reviewed many major indicators that may signal the state of our state for everyone – job and employment data, poverty and wage data, education and other investment success, health and wellness reports, and more. Unfortunately, we do not see how the changes since 2005 have improved Ohio, and are therefore nervous to go further down the same road.

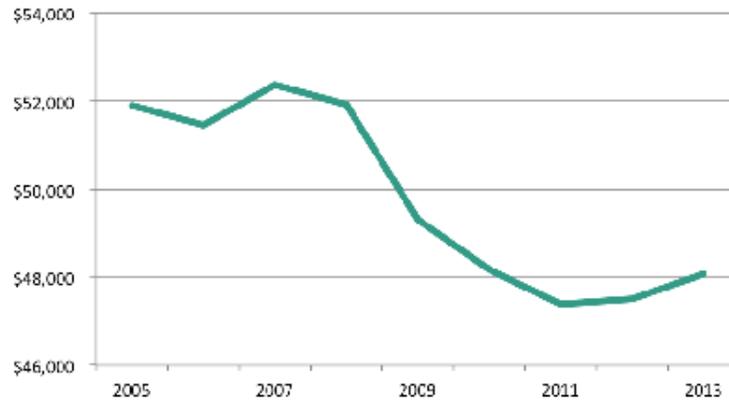
**Ohio and National Job Growth
June 2005-Dec 2014**



Source: Bureau of Labor Statistics

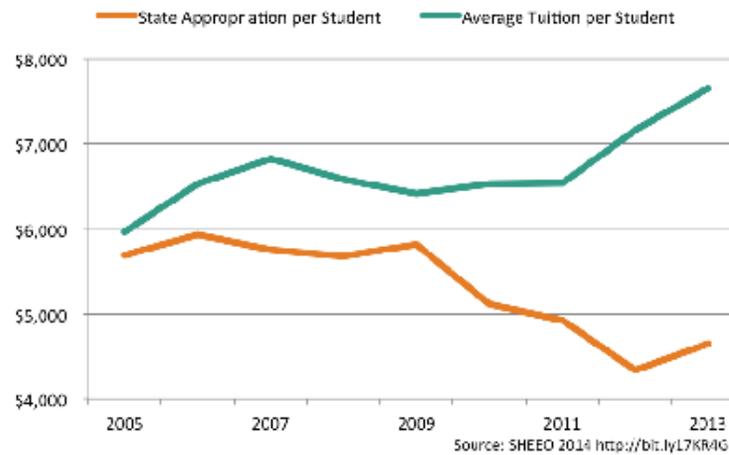


Median Income in Ohio



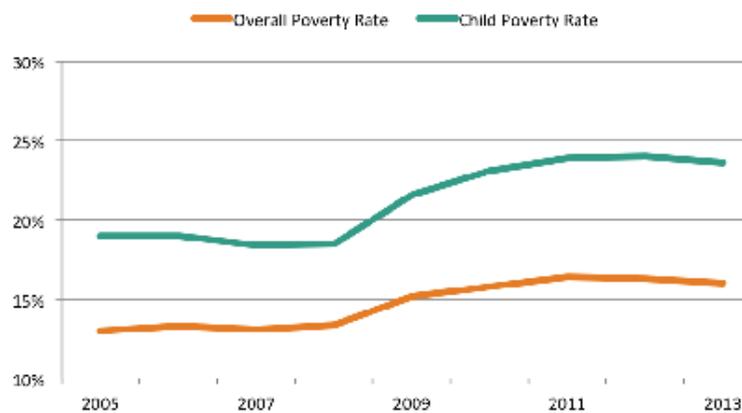
Source: American Community Survey, Census
<http://1.usa.gov/17KUI0S9>

Financing Higher Education



Source: SHEEO 2014 <http://bit.ly/L7KRAGP>

Ohio Poverty Rate



Source: ODAS "Ohio Poverty Report" & KidsCount Data



No matter what we do, let's clarify our goals and set specific benchmarks and timelines for success. It's the fiscally responsible thing to do.

- If you think tax changes since 2005 have been a success, by what measure?
- The logic for the value of tax expenditure review should carry to other spending and fiscal decisions as well.

Budget Director Tim Keen has talked repeatedly about the “philosophy” of shifting and cutting taxes to benefit our state. While I am by no means opposed to the idea of trying out new concepts in general, on the specific topic of state personal income taxes there is enough of available data that we should not need to rely on “philosophy.”

I believe we all have a similar goal of an Ohio that shares prosperity with everyone. An important component of that prosperity is job creation and economic growth. But, in the current budget proposal, the only substantial strategy for job creation and economic growth is tax shifting, with by far the biggest change being a cut to the income tax.

After a thorough review of the research, relevant testimony, and more, I believe the evidence shows that state personal income tax cuts are a poor strategy for job creation and economic growth.

Do you believe the evidence tells a different story?

I would be happy to answer any questions and I look forward to your response.

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