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Contact: Zach Schiller, Policy Matters Ohio, 216/361-9801

(zschiller@policymattersohio.org)

Jon Honeck, The Center for Community Solutions, 614/224-1344 x.223

(jhoneck@CommunitySolutions.com)

Ed Meyers, Institute on Taxation and Economic Policy, 202/299-1066 x21

Read the full report at: <http://www.itepnet.org/whopays.htm>

Ohio Taxes Hit Poor and Middle Class Far Harder than the Wealthy

Low- and middle-income Ohioans pay a much greater share of their income in state and local taxes than the state's most affluent do, according to a study released today.

The top 1 percent of non-elderly Ohio families by income, who earned at least \$352,000 in 2007, on average pay 7.8 percent of their income in state and local taxes. By contrast, the lowest fifth, who make less than \$17,000, on average pay 12.0 percent. Families in the middle fifth of the income spectrum, who make between \$32,000 and \$50,000, on average pay 11.0 percent.

Recent changes in Ohio's state and local tax system have increased the disparity. The report found that Ohio ranks 28th among states in the fairness of its tax system, based on the share of their income affluent Ohioans are paying in state and local taxes compared to that of lower- and middle-income Ohioans. Last time the study was done, which covered the law as of 2002, Ohio ranked 14th by this measure.

The national report, *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*, was produced by the Institute on Taxation and Economic Policy (ITEP) and released in Ohio by Policy Matters Ohio and The Center for Community Solutions. It reviews every state's tax system based on permanent changes in law enacted through October 2009 and income levels from 2007 (the most recent year that necessary data is available across states).

“No one would ever design an income tax with lower tax rates for the best-off taxpayers,” noted Matthew Gardner, ITEP's executive director and lead author of the study. “But that is exactly what Ohio's tax system overall does: It allows the very wealthiest individuals to contribute less of their income, on average, than middle- and lower-income families must pay. In other words, Ohio has an unfair, regressive tax system.”

The study's key finding is that nearly every state and local tax system takes a much greater share of income from middle- and low-income families than from the wealthy. Only two states require their best-off citizens to pay as much of their incomes in taxes as their poorest families must pay, and only one – California – taxes its wealthiest individuals at a rate higher than middle-income families have to pay.

Sales tax falls most heavily on low-income families

Sales and excise taxes fall more heavily on less affluent families compared to those who are better off. The poorest fifth of non-elderly Ohioans on average paid 7.0 percent of their income in sales and excise taxes in 2009, while those in the top 1 percent paid just 1.0 percent.

The state's personal income tax, on the other hand, taxes higher income at higher rates. The poorest fifth of non-elderly Ohio families on average paid 1.5 percent of their income in state and local income taxes, compared to 3.4 percent for the middle fifth and 5.0 percent for the top 1 percent.

Lower- and middle-income families also pay more of their incomes in property taxes than the most affluent families do. Even when low-income families do not own property, landlords may pass taxes through to them through rent. The lowest fifth pays 3.5 percent on average, compared to just 1.8 percent for the top 1 percent. Details on how much each income group pays are included in a table available at http://www.itepnet.org/wp2009/oh_whopays_factsheet.pdf.

Ohio's major tax overhaul in 2005 contributed to the growing regressivity of the state's tax system. Among other changes, it set the state sales tax at 5.5 percent – half a percentage point higher than its previous permanent rate – and slashed personal income tax rates by 21 percent.

The ITEP report concluded that altogether, the poorest fifth of Ohioans on average pay a larger share of their income in state and local taxes than the same group in all but seven other states.

The federal offset

Itemized deductions that many families take on their federal taxes further accentuate the difference between what wealthy Ohioans pay and the state's lower- and middle-income residents. Taxpayers may deduct some of their state and local taxes when they pay their U.S. taxes. Upper-income taxpayers are more likely to itemize and take advantage of these deductions, effectively passing the cost on to the federal government. Taking these deductions into account, the richest 1 percent of non-elderly Ohio families pays a little more than half as much of their income in state and local taxes as the lowest fifth do (6.4 percent vs. 12.0 percent).

“Ohio’s fiscal problems mean that we need to boost tax revenue to make long-term investments and provide needed services,” said Zach Schiller, research director of Policy Matters Ohio. “As we do so, we should rely on tax sources like the income tax that will close the gap between low- and high-income taxpayers.”

“Ohio raised income taxes on the wealthy in previous recessions in order to maintain public services,” said Jon Honeck, director of Public Policy and Advocacy for The Center for Community Solutions. “An increase in rates for the highest-earning taxpayers would correct some of the inequalities in our state and local tax system,” he noted, adding, “The highest earners are able to deduct the increases from their federal taxes.”

Who Pays? examines the tax systems of all 50 states and the District of Columbia, using the Institute on Taxation and Economic Policy Microsimulation Tax Model. The ITEP Model is similar in methodology and data sources to the elaborate computer models used by the U.S. Treasury and the congressional Joint Committee on Taxation, except that the ITEP Model adds state-by-state estimating capabilities. The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes. Elderly taxpayers are excluded because some states treat elderly taxpayers much differently than others, so results including them would not reflect how average taxpayers are impacted.

The full study is available at <http://www.itepnet.org/whopays.htm>.

The Institute on Taxation and Economic Policy is a nonprofit, nonpartisan Washington-based research group. Policy Matters Ohio is a nonprofit, nonpartisan research institute with offices in Cleveland and Columbus. The Center for Community Solutions is a nonprofit, nonpartisan research and policy organization with offices in Cleveland and Columbus.