

Ohio Taxes Poor & Middle Class More than the Wealthy

Low- and middle-income families in Ohio pay a higher share of their income in state and local taxes than do the richest Ohio taxpayers, according to a new study by the Institute on Taxation & Economic Policy.

“State and local governments are being called upon to take on more and more responsibilities,” said Robert S. McIntyre, ITEP’s tax policy director and lead author of the study, titled *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. “When it comes to paying for services, Ohio fails to achieve a fair tax system.”

Ohio’s Tax Code: Tax the Poor & Middle Class Far More Than the Rich

When all Ohio taxes are totaled up, the study found that:

- The richest Ohio taxpayers—with average incomes of \$660,000—pay 9.7% of their income in Ohio state and local taxes before accounting for the tax savings from federal itemized deductions. After the federal offset, they pay only 6.7%.
- Middle-income taxpayers in Ohio—those earning between \$27,000 and \$41,000—pay 10.7% of their income in Ohio state and local taxes before the offset and 10.3 after—much greater than the share the rich pay.
- Ohio families earning less than \$15,000—the poorest fifth of Ohio non-elderly taxpayers—pay 10.9% of their income in Ohio state and local taxes which is almost one and a half times the rate the richest Ohio taxpayers pay.

“Ohio’s progressive income tax offsets some but not all of the regressivity of its sales and excise taxes,” McIntyre said. “Taxes ought to be based on people’s ability to pay them, which means that the share of income paid in taxes should rise as income grows, not fall as is the case in Ohio.”

MORE . . .

Tax Regressivity Has Grown Since 1989

The study also examined the impact of changes in the regressivity of Ohio taxes since 1989, when the last cycle of state government shortfalls began. The study's findings include:

- Ohio's top bracket of 7.5% was rarely used since 1993 but now is adding needed progressivity to the overall system.
- Increases in local sales taxes helped offset the progressive income tax changes, leading to regressive tax changes overall.

"Low- and middle-income taxpayers in Ohio were hit harder by regressive tax hikes than the rich were by making the top bracket effective," said McIntyre. "As lawmakers consider budget-balancing strategies in 2003, they should remember that their past actions have served to shift a greater share of the tax burden onto middle- and low-income taxpayers."

Two pages of tables detailing the Ohio findings of the study follow

The Institute on Taxation and Economic Policy is a nonpartisan Washington-based research group. The full *Who Pays?* report is available in PDF format at www.itepnet.org. Printed copies can be ordered by calling ITEP at 202-737-4315.

Who Pays? examines the tax systems of all 50 states and the District of Columbia, using the Institute on Taxation & 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.

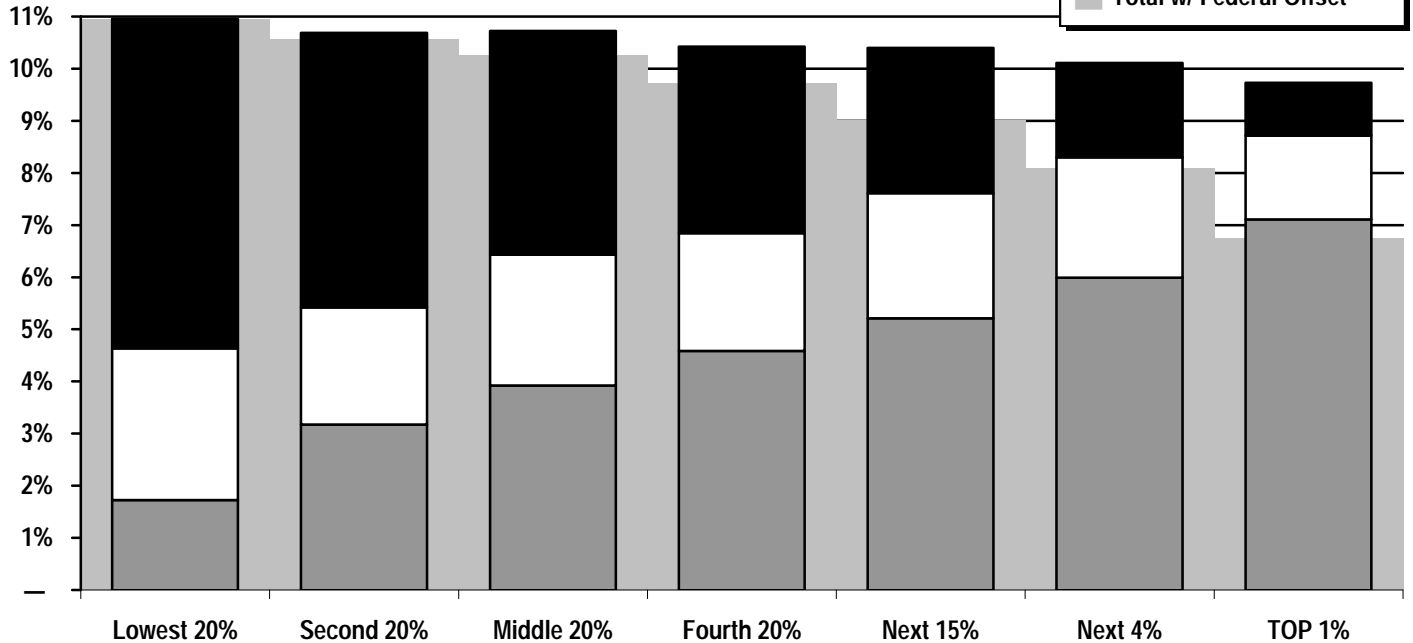
The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes.

MORE . . .

Ohio

State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$15,000	\$15,000 – \$27,000	\$27,000 – \$41,000	\$41,000 – \$65,000	\$65,000 – \$117,000	\$117,000 – \$261,000	\$261,000 or more
Average Income in Group	\$8,800	\$20,800	\$33,600	\$51,900	\$82,500	\$160,000	\$660,000
Sales & Excise Taxes	6.3%	5.3%	4.3%	3.6%	2.8%	1.8%	1.0%
General Sales—Individuals	2.9%	2.7%	2.3%	2.0%	1.6%	1.1%	0.6%
Other Sales & Excise—Ind.	1.8%	1.2%	0.9%	0.7%	0.5%	0.3%	0.1%
Sales & Excise on Business	1.6%	1.3%	1.0%	0.8%	0.6%	0.4%	0.3%
Property Taxes	2.9%	2.2%	2.5%	2.3%	2.4%	2.3%	1.6%
Property Taxes on Families	2.8%	2.2%	2.4%	2.1%	2.2%	1.9%	0.9%
Other Property Taxes	0.1%	0.1%	0.1%	0.1%	0.2%	0.4%	0.7%
Income Taxes	1.7%	3.2%	3.9%	4.6%	5.2%	6.0%	7.1%
Personal Income Tax	1.7%	3.2%	3.9%	4.5%	5.2%	5.9%	6.9%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
TOTAL TAXES	11.0%	10.7%	10.7%	10.4%	10.4%	10.1%	9.7%
Federal Deduction Offset	-0.0%	-0.1%	-0.5%	-0.7%	-1.4%	-2.0%	-3.0%
TOTAL AFTER OFFSET	10.9%	10.6%	10.3%	9.7%	9.0%	8.1%	6.7%

Note: Table shows 2002 tax law at 2000 income levels.

Ohio Tax Trends

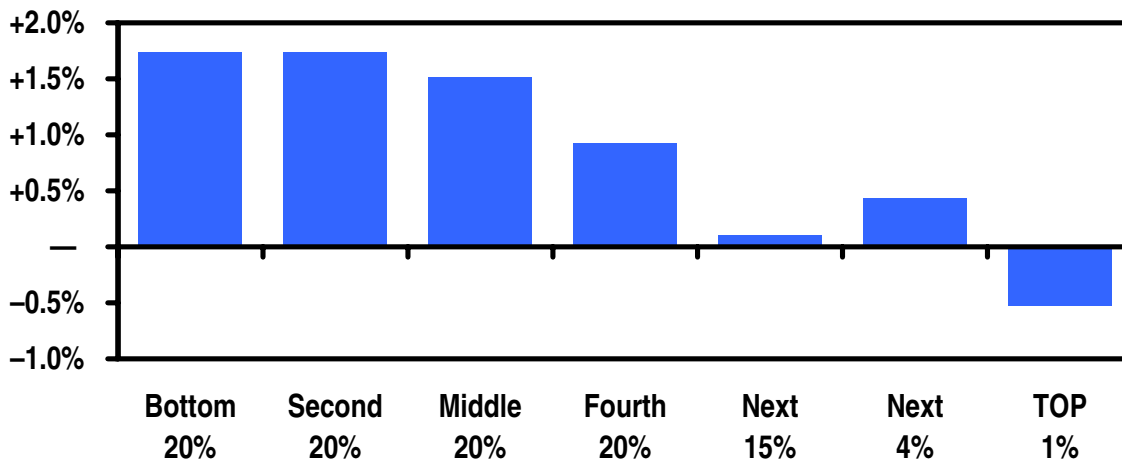
Progressive Features

- ✓ Graduated income tax rates
- ✓ Dependent care credit
- ✓ Personal exemption indexed

Regressive Features

- ✗ Credits are not refundable

Changes in Taxes as Shares of Income, 1989 – 2002

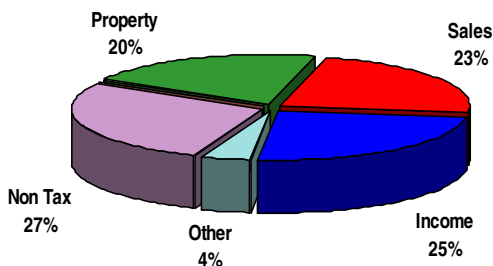


	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Sales & Excise	+0.8%	+0.5%	+0.4%	+0.3%	+0.2%	+0.1%	+0.1%
Property	+0.7%	+0.6%	+0.8%	+0.3%	-0.2%	+0.0%	-0.2%
Income	+0.2%	+0.7%	+0.7%	+0.6%	+0.7%	+0.9%	+0.8%
Federal Offset	-0.0%	-0.1%	-0.3%	-0.4%	-0.6%	-0.6%	-1.3%
Overall Change	+1.7%	+1.7%	+1.5%	+0.9%	+0.1%	+0.4%	-0.5%

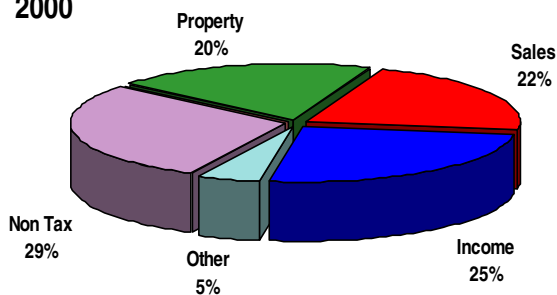
Ohio has a 7.5% top tax bracket, enacted in 1993, that is contingent on state finances. Although not effective for much of the 1990s, it was effective in 2002, making the income tax more progressive. Lack of indexing caused an implicit hike on low- and middle-income taxpayers. Local sales taxes increased somewhat during the decade.

Composition of Revenues

1989



2000



Source: Government Finances, US Department of Census