

# A Brief Review of State and Local Taxation in Ohio

Presentation of  
Ohio Tax Commissioner  
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Commission on  
Local Government Collaboration  
and Reform

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# Review of Ohio taxes

**This presentation will cover:**

- **Principles of taxation.**
- **Economic basis of taxation**
- **Ohio's major state and local taxes**
- **Recent tax reforms**
- **Ohio's tax burden, compared to other states**

# Principles of Taxation

Many organizations (such as the 2002 Committee to Study State and Local Taxes, created by the Ohio General Assembly) recognize these principles of taxation:

- **Equity**
- **Neutrality**
- **Simplicity**

# Principles of Taxation

- **Equity:**
  - *Horizontal equity* exists when the tax system imposes similar burdens on similarly situated taxpayers.
  - *Vertical equity* exists when the tax system recognizes differing abilities of various taxpayers to pay.
- **Neutrality**
- **Simplicity**

# Principles of Taxation

- **Equity**
- **Neutrality:**
  - The tax system should interfere with private sector decision making as little as possible and not unduly influence economic behavior. The economy and the marketplace, not the government's tax policy, should drive business decisions.
- **Simplicity**

# Principles of Taxation

- **Equity**
- **Neutrality**
- **Simplicity:**
  - **The tax system should facilitate taxpayer compliance by being easy to understand. Simplicity helps to minimize both the compliance costs imposed on taxpayers and the government expense of administration and enforcement.**

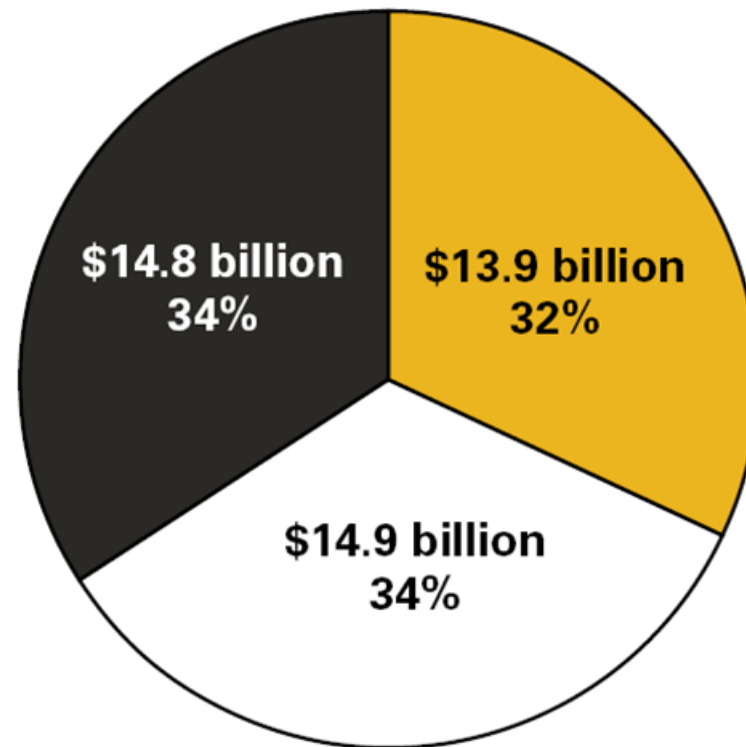
# Economic basis of Ohio taxes

All taxes can be grouped into three broad categories. Taxes may be levied on:

- **Wealth**
  - Examples: Property or estates.
- **Income**
  - Examples: Individual or corporation income.
- **Consumption**
  - Examples: Sales, motor fuel, cigarettes.

# Economic basis of Ohio taxes: state and local

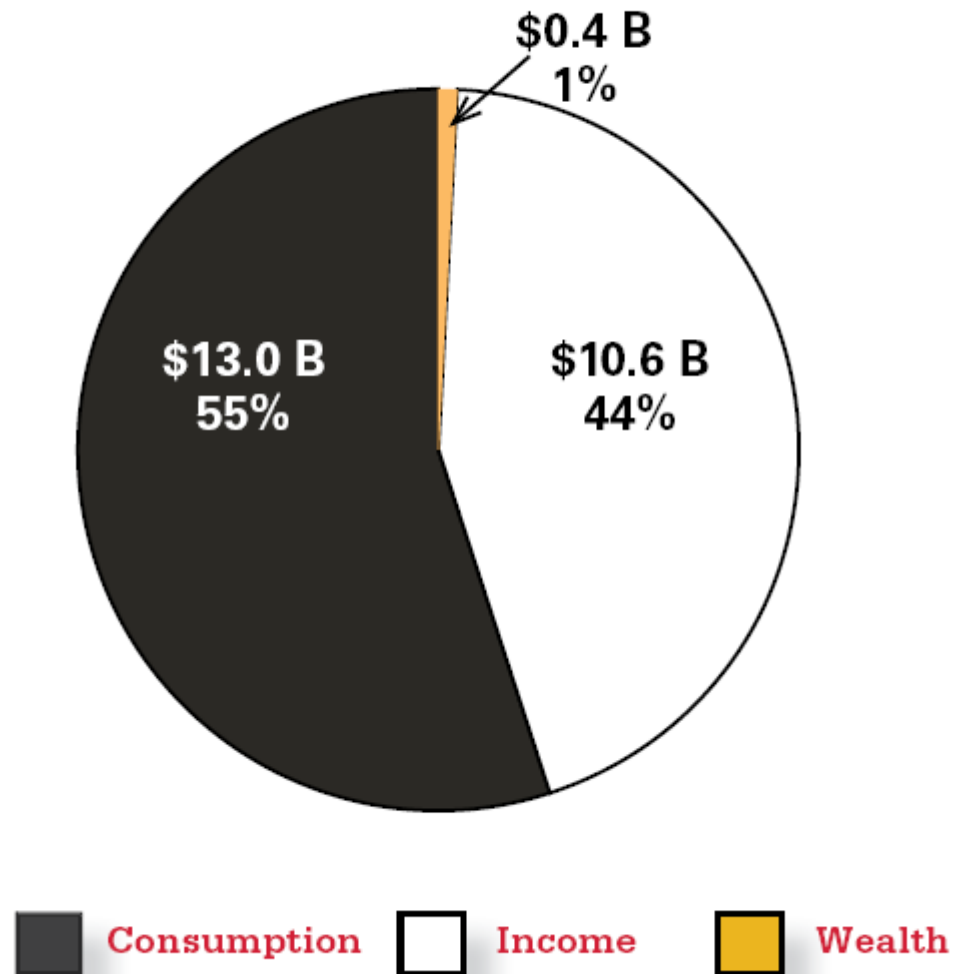
Total: \$43.6 billion



■ Consumption    □ Income    ■ Wealth

# Economic basis of Ohio taxes: state taxes

Total: \$23.8 billion

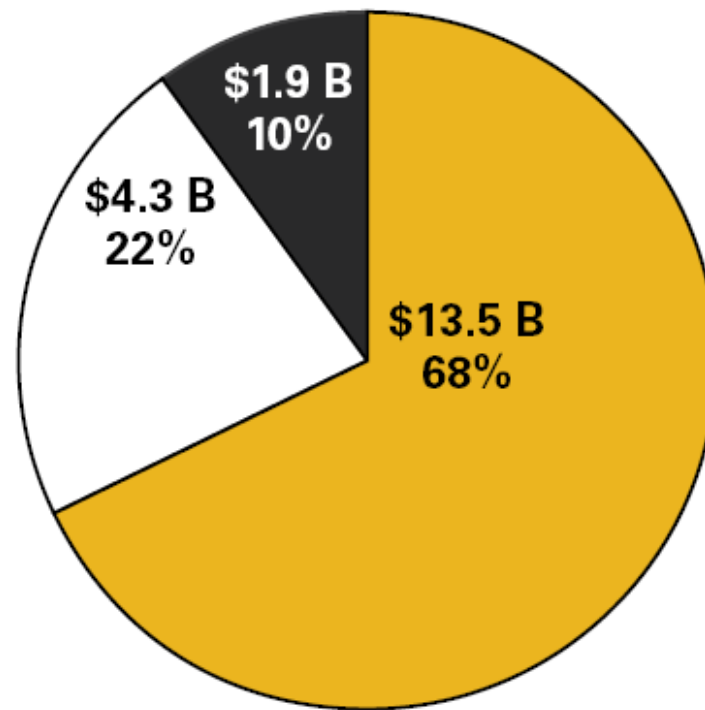


## **Key state taxes (total: \$23.8 billion)**

- **Income: \$10.6 billion**
  - Personal income: \$9.8 billion
  - Corporation franchise: \$0.8 billion
- **Sales: \$7.9 billion**
- **Other consumption: \$5.1 billion**
  - Examples: Motor fuel (\$1.8B), commercial activity (\$1B), cigarettes (\$1B), kilowatt-hour tax (\$0.6B)

# Economic basis of Ohio taxes: local taxes

Total: \$19.8 billion



 Consumption  Income  Wealth

## Key local taxes (total: \$19.8 billion)

- **Property: \$13.5 billion**
  - Real property: \$11.9 billion
  - Personal property (general): \$1 billion (2007)
  - Personal property (utility): \$0.6 billion
- **Income: \$4.3 billion**
  - Municipal: \$4 billion
  - School district: \$0.3 billion
- **Sales (county and transit): \$1.7 billion**
- **Others:**
  - Lodging (\$0.1 billion), cigarette (\$0.02 billion)

## Special cases:

- **Commercial activity tax (CAT): \$961 million**
  - Replaces the state's corporation franchise tax, but all revenue is currently split 70/30 between schools and local governments.
  - Long term, 70 percent of revenue will be devoted to schools in perpetuity.
- **Estate tax: \$317 million**
  - Usually classified as a state tax, but 80 percent of the revenue is returned to the city, village or township of the estate.
  - Dates back to 1890s.

# Ohio's revenue sharing tradition

- **Local government funds:**
  - **Local Government Fund: \$746 million**
  - **Public Library Fund: \$451 million**
  - **Both funds recently unfrozen and tied to the rise (and fall) of GRF tax revenue**
- **Property tax relief efforts:**
  - **10 percent rollback: \$991 million**
  - **2.5 percent rollback: \$194 million**
  - **Homestead exemption: \$317 million**

**Note: All figures are for calendar year 2008**

# The Historic Achievement of Ohio's Ongoing Tax Reforms

## Five-Year Phased-In Tax Reform, Enacted in 2005 (HB 66):

- **Historic achievement**
- **Lower, simpler taxes**
- **More investment-friendly**

# Historic Achievement

## 1. Tangible property tax: **REPEALED**

- Most burdensome business tax
- Impediment to investment
- In existence since 1846, despite  
long history of repeal efforts
- Final payments made: Sept. 2008

# Historic Achievement

## 2. Corporation franchise tax: **REPEALED**

- High rate (8.5% over \$50,000 profit),  
but uneven application & low yield
- In existence in some form since 1902
- Ohio will be 1 of only 6 states without  
general tax on corporate profits
- Final payments due: May 2009

# Historic Achievement

## 3. Income tax: 21% cut over 5 years

*Average savings for family of four  
in 2009, compared to 2004 rates*

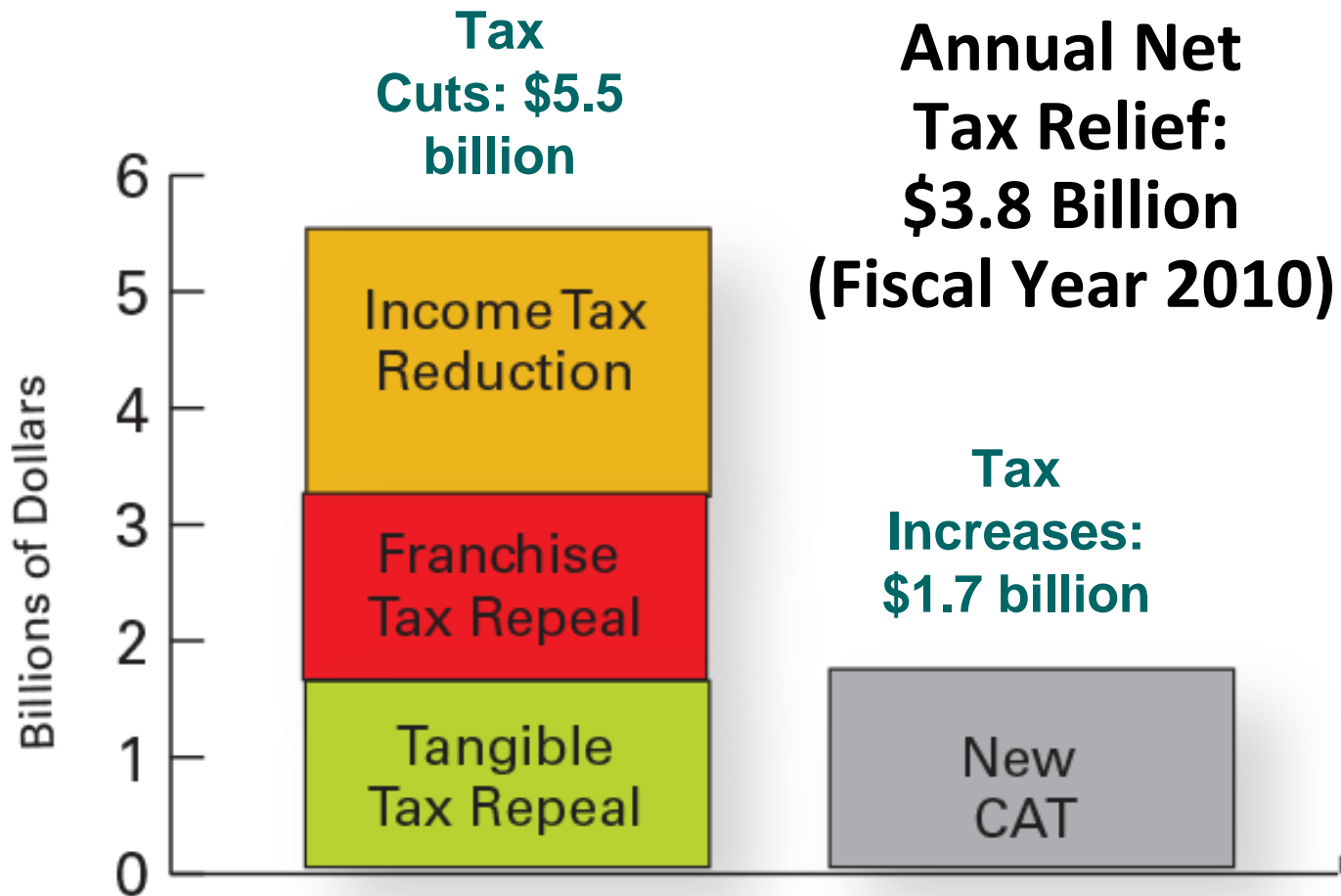
<u>Income</u>	<u>Tax at 2004 Rates</u>	<u>Tax at 2009 Rates</u>	<u>Saving in 2009</u>
\$ 30,000	\$ 464	\$ 325	\$ 139
60,000	1,824	1,389	435
100,000	4,008	3,105	903

# Historic Achievement

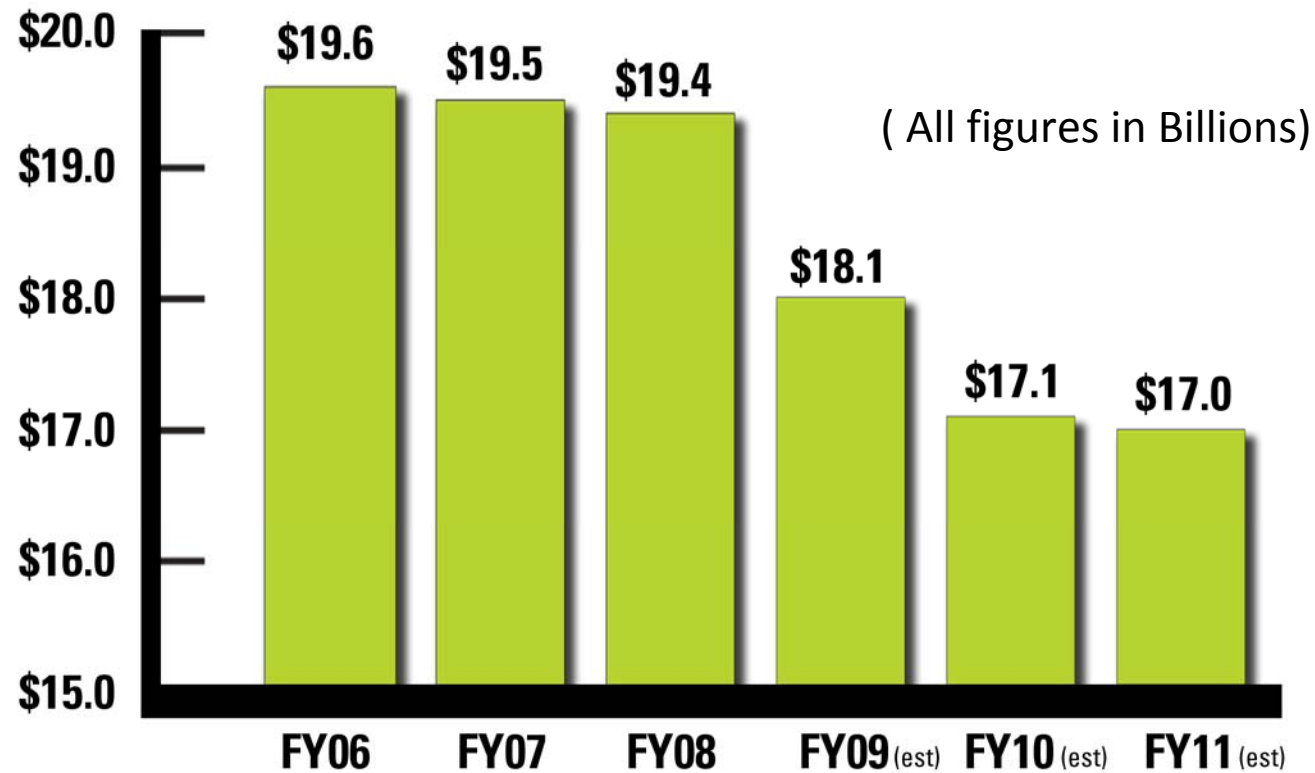
## 4. Successful 5-year phase-in of new business tax (CAT)

- Tax policy: Low-rate, broad base
- In FY 2008, 170,752 taxpayers paid total of \$929.7 million
- Small businesses are majority... subject only to \$150 minimum
- Phase-in will be completed this year

# Historic Achievement

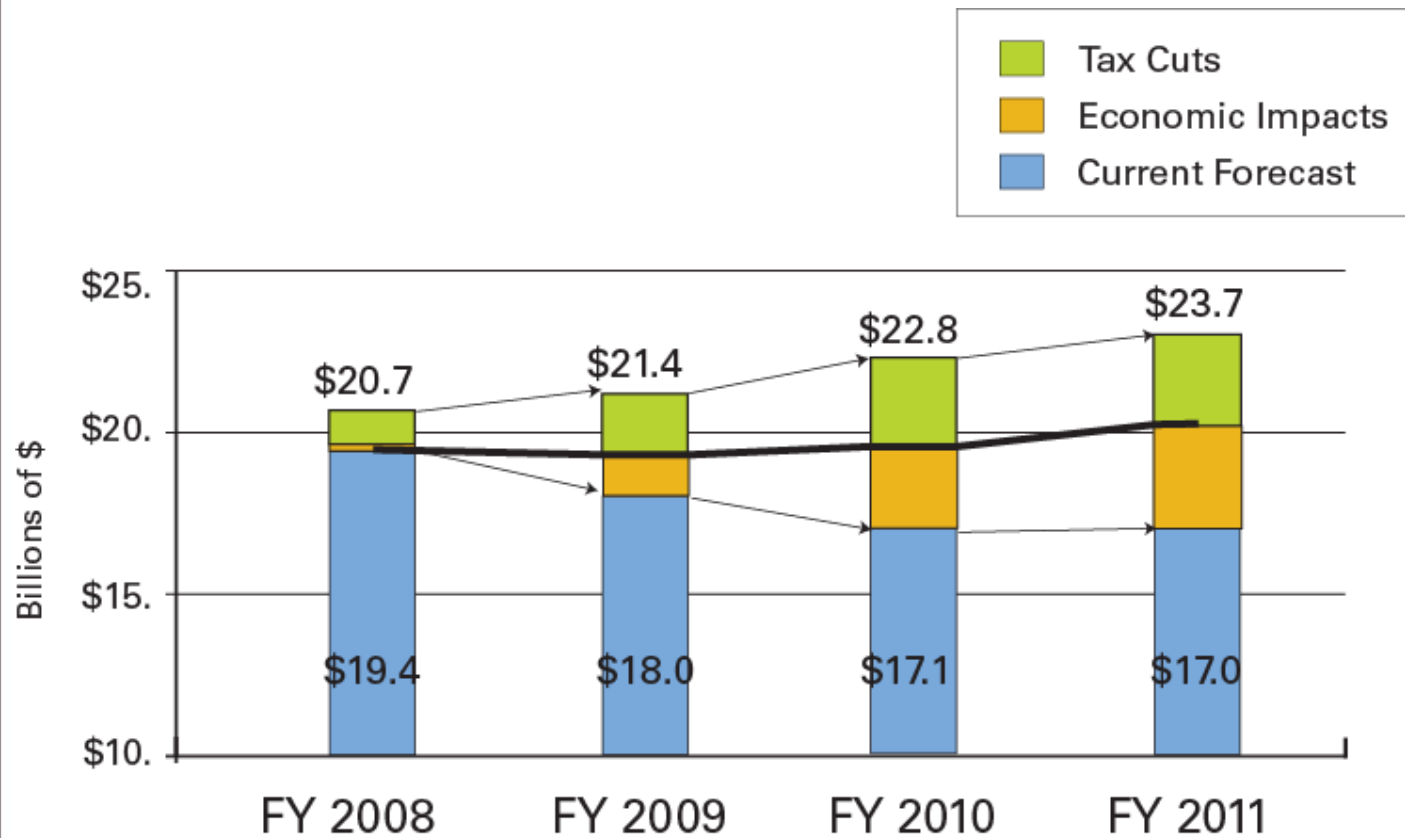


## Ohio's GRF Tax Revenues Will Decline Five Years in a Row



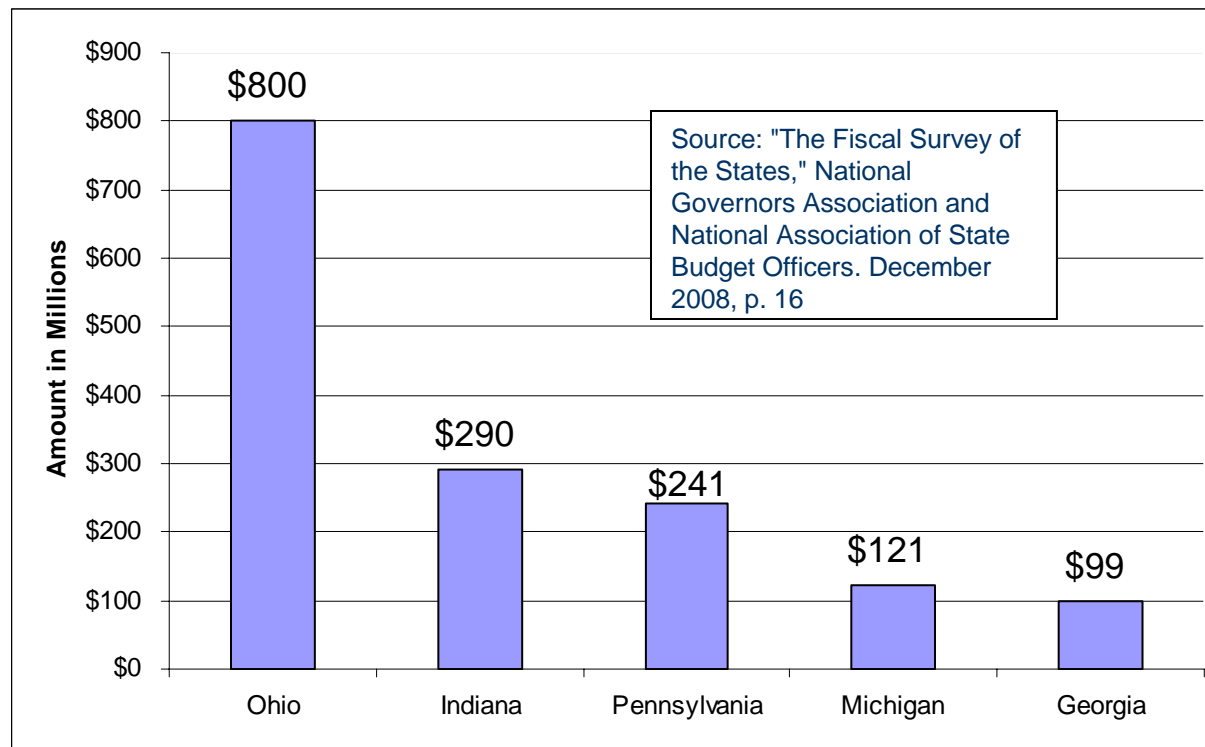
Note: In past half century, GRF tax revenues had never declined two years in a row.

## Impact of Tax Cuts and National Recession on GRF Tax Revenue



# Ohio's tax reforms in perspective

## Five Largest State Tax Reductions in the Country in FY09 (In Millions)



# Ohio's tax reforms in perspective

Ohio's state and local tax burden, measured...

	State burden	Local burden	Combined burden
Per capita	\$2,140	\$1,632	\$3,773
As a % of personal income	6.7%	5.1%	11.8%

SOURCE: Analysis of U.S. Census data on tax collections

# Ohio's tax reforms in perspective

How high is Ohio's tax burden? The rankings...

	State burden	Local burden	Combined burden
Per capita	35 <sup>th</sup>	18 <sup>th</sup>	24 <sup>th</sup>
As a % of personal income	34 <sup>th</sup>	9 <sup>th</sup>	18 <sup>th</sup>

SOURCE: Analysis of U.S. Census data on tax collections

## Ohio's tax reforms in perspective

- The trend for Ohio appears to be an lower burden, compared to other states.
- Census data released last year showed Ohio's state-only burden fell 11 places between FY 2005 and 2007.
- Exact burden may be subject to restatement by the U.S. Census, but the direction seems clear.

# Ohio's tax reforms in perspective

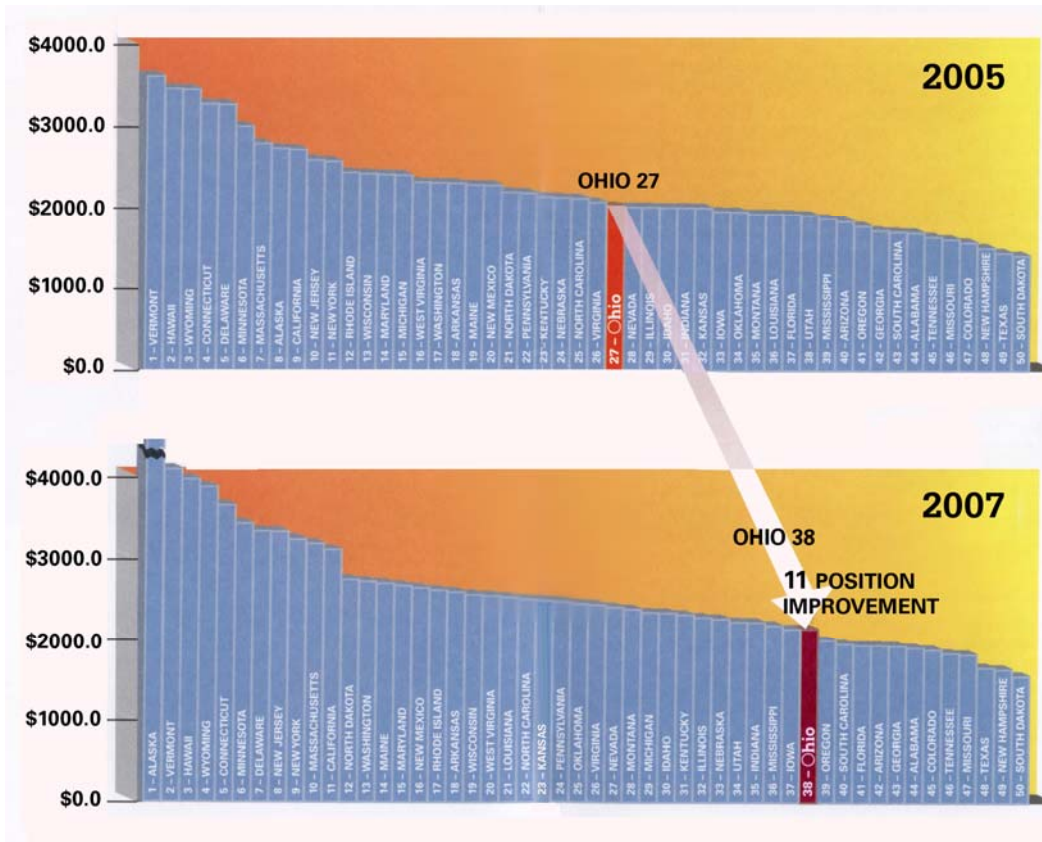


Illustration of Ohio's changing state-only burden (FY 05 and FY 07) by the Ohio Business Roundtable.

## Remaining Challenge to Reform: Ohio Grocers' CAT Litigation

- The CAT is a business tax, a tax “for the privilege of doing business in this state,” like the corporation franchise tax before it.
- Ohio Grocers Association has challenged its constitutionality.
  - Common Pleas Court ruled in favor of state
  - In Sept. 2008, district court of appeals *reversed* decision and declared CAT “transactional” as applies to grocers’ receipts from food sales
  - Case will be heard by Ohio Supreme Court

## Revenue Implications of the CAT Litigation

- If the court of appeals decision is sustained, it would mean an estimated annual revenue loss of \$188 million per year.
- It would also result in refunds that would total approximately \$355 million.

# Amicus Briefs in “Grocers” in Support of Tax Commissioner

- Ohio Business Roundtable
- Business organizations (OMA, OSCPA’s, OSMA, ODA, OCTC)
- County Commissioners, Municipal League, Townships, and Sheriffs’ associations
- School Boards, Superintendents, and School Treasurers’ associations
- Low-income advocacy groups
- Labor unions (AFL-CIO, state employees, FOP, Firefighters)
- Multistate Tax Commission

## **Amicus Briefs in support of the Grocers**

Filed earlier this week:

- **Tyson Sales & Distribution, Inc.**
- **Ohio Restaurant Association**
- **Buckeye Institute and Tax Foundation**

# Review of Ohio taxes

- **Ohio's key local taxes:**
  - **Property: \$13.5 billion**
  - **Income: \$4.3 billion (\$4 billion for cities and villages).**
  - **Sales: \$1.7 billion**
- **Ohio's ongoing tax reforms: Among the largest reductions in the nation.**
- **Ohio's state and local tax burden: Around the middle of the pack, and apparently falling, relative to other states.**