Revisit Ohio's tax cuts

By ZACH SCHILLER

THE State of Ohio, you may have heard, has a budget problem. The state budget will be billions of dollars short in the two years that start next July 1.

It's easy to attribute this problem to the economy, and that's certainly part of it. But a big share of our shortfall is self-inflicted.

In 2005, the General Assembly eliminated the state tax on corporate profits, slashed the individual income tax, and phased out a major business property tax. At the same time, a new business tax was created and other taxes were raised.

The overhaul of Ohio's tax system costs more than $2 billion a year, according to the state Department of Taxation. Business taxes overall were "substantially lowered," the Ohio Business Roundtable says.

The idea was that tax cuts would help Ohio's economy grow. It hasn't happened. Since 2005, Ohio has continued to lose ground to other states.

We have lost relatively more jobs, and more manufacturing jobs, than the country as a whole. Our output and new investment have lagged, while personal income hasn't kept up.

Supporters of the tax cuts blame the recession. But if taxes are so important to the economy, that wouldn't be true just in good times. The two states with the lowest unemployment rates, South Dakota and North Dakota, have dramatically different tax rates and tax systems.

Nearly one dollar in every eight of Ohio's income-tax cuts will be offset by higher federal taxes on Ohioans, who will have lower in-state tax deductions to itemize on their federal returns. Some of the increased income from the state tax cuts will be saved, or spent outside Ohio.

For these reasons, the income-tax cuts were never likely to generate more economic growth than the reduced spending they required. It's no big surprise that Ohio's economy didn't improve because of them.

The tax cuts reinforced a system in which low and middle-income families pay more of their income in state and local taxes than affluent families do. More than 40 percent of the income-tax cuts, when they are fully implemented next year, will go to the 5 percent of families with income of $135,000 or more a year, according to the Institute on Taxation and Economic Policy. Meanwhile, the bottom three-fifths of Ohio families by income will get just 13 percent of the total tax cut.

Another key contributor to Ohio's budget crunch is the huge amount of credits, exemptions, and deductions that reduce tax revenue. The Taxation Department estimates these "tax expenditures" are worth more than $7 billion a year.

Sales tax paid by wealthy buyers of shares in jet aircraft is capped. No sales tax is charged on lobbyists' services. One tax break for banks and financial institutions is larger than the entire amount of tax that is collected.

Many exemptions and credits have continued for decades. They drain state revenue and provide special advantages for certain taxpayers, without an accounting of whether they still serve their original purpose - or any purpose at all.

The Ohio Manufacturers' Association recently noted that the state sales tax "has become riddled with exemptions, carve-outs, and credits." The group called for a comprehensive examination of the tax.

State support for early childhood education, mental health programs, libraries, and much more has come under the knife as revenues have fallen. Yet tax exemptions and credits that have every bit as much impact on the state budget have not gotten the same treatment.

They should be pared. The commission of state lawmakers that is meeting to devise budget solutions should hold hearings on these loopholes, determine whether they are serving a worthwhile purpose, and recommend eliminating those that aren't.

States such as Kansas, Oklahoma, Colorado, and Iowa have reduced tax credits. Ohio should do the same.

The 2005 tax cuts did not improve Ohio's economic performance as promised. They increased the share of taxes paid by middle and low-income taxpayers. And they have deprived the state of resources needed for public services.

We need to revitalize the income tax, in particular for high earners. We need to restore revenue from business taxes to levels that existed before the 2005 tax changes. Doing so would still leave the business share of state and local taxes well below where it was 30 years ago.

Ohio needs to invest in our people, education system, and infrastructure. We should overhaul our tax system to produce the revenue we need to do so.

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