

Ohio tax cut delay means less cash for taxpayers

By STEPHEN MAJORS (AP) – 3 days ago

COLUMBUS, Ohio — Ohioans will pay more in 2009 taxes than expected because a budget compromise expected to clear the Legislature on Thursday delays the last in a series of tax cuts begun four years ago.

The agreement delays a scheduled income tax cut to fill an \$850 million budget gap while preserving state funding to school districts, which would have taken a hit if it had gone through. Educators and community leaders had spent the last week complaining loudly about the financial hardship they faced as a result of the budget impasse.

For the majority of Ohioans, the deal means they will have to forgo tax savings of less than \$100.

The deal reached late Wednesday night resolved what had been increasingly tense negotiations between Gov. Ted Strickland and Democratic lawmakers on one side, and Republicans loath to suspend a tax cut on the other.

On Thursday, a small group of Republicans is expected to support Strickland's plan to delay the final round of income tax cuts set in motion in 2005. In return, Democrats agreed to a pilot project to test proposed construction contracting changes they believe aren't ready to be implemented on all public projects. The agreement secured enough votes to get the deal out of the House and Senate, and to the governor's desk.

A Senate committee is expected to approve the plan Thursday, followed by votes on the House and Senate floors.

The deal impacts the wallets and pocketbooks of Ohio taxpayers, but not by much, many lawmakers would argue. It postpones for two years the final installment of what was to be a 21 percent income tax cut begun under Strickland's predecessor, Bob Taft.

The lowest 20 percent of earners, making \$18,000 or less, will have to pay only \$2 more for 2009 than they would have had they received the 4.2 percent reduction in the tax rate, according to the Institute on Taxation and Economic Policy. The top 1 percent, earning \$319,000 or more, will pay \$1,980 more. And those in the middle 40 percent, earning from \$32,000 to \$76,000 a year, will pay an additional \$37 to \$69.

Without the deal on the tax plan, or an alternative proposal to cut \$850 million from other state programs, the money would have been taken from school districts. Many had feared a direct impact on the classroom because of fewer teachers, larger classes, and a reduced ability to provide textbooks and supplies.

Republicans opposed to the tax cut delay because they said not delivering the money to taxpayers as planned would negatively impact the economy. Democrats said the state spending cuts that would result instead would be more harmful.

Strickland and his legislative allies have insisted the tax change is a delay, saying they have the intention of implementing the cut for the 2011 tax year. But the state faces a potential multibillion-dollar deficit due to the expected absence of federal stimulus money, leading some to believe the delay may be permanent.

"While this fills the hole for now, we have a gigantic, yawning gap ahead in the next budget," said Zach Schiller, research director for Policy Matters Ohio. "Even just continuing this, we would have billions of dollars in additional cuts and revenue needed."

Strickland said Thursday that he and other governors will seek additional federal money in the coming years if the economy does not get considerably better.

The governor said he has been committed to the tax reductions, and insisted the tax cut delay really is a delay.

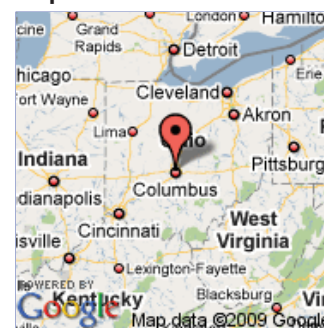
"I never guarantee what I might do under what circumstances they may occur," Strickland said. "This is a temporary delay. I have no intention of making it anything other than a temporary delay."

The \$850 million budget gap was created when the Ohio Supreme Court sidelined an earlier budget-balancing plan: legalized video slot machines at racetracks. The court agreed with the legal argument of LetOhioVote.org, which argued that voters are entitled to a referendum on the new machines. That vote could take place next year.

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