

State Government Finance

Positions: State Finance

Updated LWVO Positions on State Finance and Taxation (Approved Dec. 2010)

Criteria (Adopted July 1989)

LWVO supports the following tax principles as criteria to be used in evaluating individual taxes and the tax mix in Ohio. Taxes should:

1. be fair and equitable;
2. provide adequate funds for government programs while allowing flexibility for financing future program changes;
3. be understandable to the taxpayer and encourage compliance; and
4. be easy to administer.

Taxes on Business (Adopted July 1989; revised December 2010)

LWVO supports taxes on business as a source of state revenue especially because businesses should help pay for services received.

Income Tax (Adopted July 1989)

LWVO supports a personal income tax as a source of state revenue because it meets the fair and equitable principles. The state income tax rates should be graduated.

Property Tax (Adopted March 1983):

1. LWVO supports real property tax relief, financed by the state in the form of the Homestead Exemption, based on age, income and disability income.
2. LWVO supports the elimination of the real property tax rollbacks, both across-the-board and for owner-occupied homes.

Sales Tax (Adopted March 1983; revised June 1989):

1. LWVO supports a change in the base rather than a change in the rate of the sales tax. We favor broadening the base by reducing the number of exemptions.
2. LWVO supports application of the sales tax to nonessential services, tickets for professional athletic and entertainment events, and prepared food purchased for on- or off- premise consumption.
3. LWVO supports exemptions for food, other than prepared food, sold for off-premise consumption, prescription drugs, prosthetic and surgical devices, and items for direct use (components in manufacturing and agricultural use).

Tax Mix (Adopted July 1989; revised December 2010)

If an increase in state taxes is needed, LWVO prefers the income tax as a source of revenue because it tends to be progressive rather than regressive. Applying means testing to state property tax-relief programs would increase the revenue generated by the tax and make the system more equitable by not unduly burdening low-income individuals and families. Taxes on alcohol and tobacco are another

revenue source if needed. An increase in sales tax, although less desirable, is another possible revenue source

If a decrease in state taxes is called for, LWVO supports reducing the sales tax because it is regressive and less equitable. Tax relief for those at the lower end of the income scale should be considered if there is an increase in state taxes.

Background: State Finance

The state government finance study was recommended by the state board in 1981 on the basis of local League recommendations. The previous LWVO study of state finance, which focused on major services (education, welfare, mental health), was completed in 1969.

During 1981-83, we reached consensus on aspects of the sales tax and property tax. The 1985 Convention readopted the study for the 1985-87 biennium but modified the scope to focus only on two remaining major taxes: corporate franchise and income. In May 1988 *It's Your Money: Ohio Government Finances* was published.

In 1994, a constitutional amendment to repeal the wholesale tax on soft drinks was opposed by LWVO, but was passed by the voters.

The biennial budget for the years 2002-03 was balanced with one-time monies. Governor Taft introduced a budget for 2004-05 proposing some changes in taxes, and the General Assembly appointed a Committee to Study State and Local Taxes. While the final 2004-05 budget did include some tax changes, it neither addressed the structural deficit nor reduced the tax equity gap.

The momentum for tax reform continued into 2005 with the development of the 2006-07 biennial budget. The goals were to stimulate jobs and capital investment in Ohio, and to slow down the rate of growth in government spending. The major components of tax reform were to be phased in over five years and included repeal of the corporate franchise tax and the tangible personal property tax on business machinery and equipment, to be replaced by a new tiered Commercial Activity Tax (CAT) levied on gross receipts. This shifted much of the tax burden away from manufacturers and onto retail businesses. The reforms also set the permanent sales and use tax at 5.5% (a decrease of half a penny from the previous permanent rate). The legislature cut individual income taxes, increased excise taxes on cigarettes and other tobacco products, and authorized school districts to increase levies by 4% annually to offset inflation.

The League had serious reservations about the tax reform package as a whole and opposed its enactment. The primary reasons for opposing the reforms were:

- (1) There was insufficient evidence that the new CAT tax would be an effective or even appropriate vehicle for generating economic growth and job creation in Ohio.
- (2) Tax revenues would fail to meet state financing requirements in both the long and the short term, and would result in severe cuts to vital state programs and services and local governments.
- (3) Implementation of the package as a whole would result in a further shift of the larger share of tax responsibility from the business sector onto individual taxpayers, and away from wealthier to low- and middle-income individuals.

On the spending side, low-income parent eligibility for health care services under Medicaid was reduced, and the state's Disability Medical Assistance program for very low income adults was cut by at least 40%. The League opposed the cuts to these vital health care programs.

In 2005, Governor Taft backed a constitutional amendment authorizing the state to issue bonds for funding the Third Frontier as well as improvements to Ohio's bridges and roads. The Third Frontier bonds are to nurture high-technology business in Ohio.

Another important development during 2005 was the introduction of two proposed state constitutional amendments, each proposing to limit state spending to a formula based on the rate of population growth and inflation. After analyzing the potential impact of a spending cap on the state's ability to collect adequate revenue and examining the impact of a similar measure in Colorado, the League adopted a position opposing spending limits. The League joined in efforts organized by the Coalition for Ohio's Future intended to defeat the proposals. Efforts to pass a constitutional amendment were abandoned in favor of a statutory limitation.

The 2008-09 Executive Budget proposed no major new spending initiatives and continued the policy directions of the prior administration. It contained a \$25,000 local property tax exemption for all property owners aged 65 and over to be paid for by selling the state's rights to monies due from the tobacco lawsuit settlement. Initiatives in the Executive Budget funding more early childhood development programs and easing restrictions on the Passport Program were adopted. The legislature expanded on the administration's proposal to freeze undergraduate in-state tuition and added \$100,000,000 in grants to higher education to recruit students and scholars in the science, technology, engineering, math, and medicine (STEM2) disciplines.

The 2010-11 budget reflected the economic problems faced by the entire country and the ever lessening tax revenues. After several continuation budgets in July the legislature approved a budget providing for no increase in any of the major taxes, and increased revenues by expanding gambling at race tracks, and increasing some fees. Social programs absorbed large decreases in funding. Education funding absorbed less of the shortfall, and the Governor's "evidence based" model of school funding was enacted.

Outlook: State Finance

Economic problems continued throughout the country and in Ohio: a slump in the housing market, record high foreclosures on homes, a downward trend in wage and salary growth, and little, if any, growth in employment. Revenues for all major taxes continued to fall short of projections. The future will hold challenges for Ohio.

In 2007, LWVO appointed a study group to review and make recommendations to update the positions in light of the creation of the CAT tax and the phasing out of the corporate franchise and personal property taxes.