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Legislative Proposals to Eliminate the Ohio CAT and PIT are Attention Grabbing but Raise Many Questions and Uncertainties

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The Facts Part I: HB 386 and SB 216 were introduced in late January. Both proposals would phase out Ohio's Commercial Activities Tax (CAT) and Personal Income Tax (PIT) and repeal them on January 1, 2030. Both proposals were assigned to their respective ways and means committees. To date, neither committee has met to hear testimony.

The Facts Part II: In last year's Ohio budget bill (Am. Sub. HB 33), the General Assembly based its biennium spending on forecasted CAT revenues of $4.3B, PIT revenues of $22.6B, and Sales/Use tax revenues of $28B.

Obvious Question Part I: How is Ohio going to replace this lost revenue? Answer: Neither bill answers this question. Seemingly, the state will rely on some combination of spending cuts, new taxes and additional revenues from existing taxes (e.g., sales tax, severance, sports gaming, and marijuana). Depending on the nature of the spending cuts, it is conceivable local governments may choose to replace their potential lost state funding by adjusting their local income and sales taxes to raise greater revenues.

Obvious Question Part II: Are these taxes, as presently constituted, hurtful to Ohio's economy and therefore hurtful to the Ohio population's standard of living? Answer: Unclear, although the hypothesis of the bills' sponsors is seemingly "yes."

Obvious Question Part III: Would eliminating the CAT and PIT improve Ohio's economy and the Ohio population's standard of living? Answer: The hypothesis of the bills' sponsors is seemingly "yes." That said, this question is impossible to answer without knowing how Ohio is going to replace the lost revenue, if at all.

Obvious Question Part IV: How does eliminating these two taxes help or position Ohio during robust or depressed economic times? Answer: This question is impossible to answer without knowing how Ohio is going to replace the lost revenue. That said, relying largely on sales and use taxes would seem to present serious challenges during depressed economic cycles.

Tax Policy Fundamentals Part I: Generally, states derive tax revenue from three primary sources: property taxes, income taxes and sales taxes (i.e., the three-legged stool). Ohio largely repealed its tangible personal property tax in 2009, and Ohio's real property tax is purely a local tax. The bills' sponsors now want to repeal the CAT and PIT in 2030. Going forward with just one leg of the tax stool presents risks to the state fisc and to the Ohio citizens who will need more aid in times of economic downturn.

Tax Policy Fundamentals Part II: Ohio receives tax revenues from two sources: businesses and individuals. Businesses and individuals both benefit from the services that Ohio provides. Economically, businesses do not pay taxes because they can pass that expense along to individuals in the form of higher prices. Nonetheless, what percentage of tax revenues should Ohio obligate businesses to pay? Public information shows that businesses pay about 44% of Ohio's state and local taxes, which is about equal to the national average. Does eliminating the CAT and PIT (which includes a tax on the individual's business income) place too great a burden/reliance on individuals, or otherwise provide too great of a benefit to one or more industries as opposed to others? This is hard to answer without knowing how Ohio intends to replace the lost revenue. These are fundamental policy questions. Reducing the size or growth of state government by reducing its budget is worthy of public debate. But who will be the winners? Who will be the losers? There is much economic and social policy embedded within the CAT and PIT. How will these policies be impacted by the repeal of the CAT and PIT? What risks do individuals and businesses incur now and in the future? Much work needs to be undertaken by the General Assembly before they can make an informed decision to repeal these taxes.