

# POLICY MEMO

HELP OHIO CITIES TRANSITION  
TO A NEW TAX SYSTEM  
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## The Buckeye Institute's Recommendation

The federal government will soon send Ohio another **\$2.65 billion** in tax dollars from the American Rescue Plan Act (ARPA). After **replenishing the state's unemployment compensation fund** and **helping K-12 students who lost in-person instruction during the pandemic**—as The Buckeye Institute has recommended—Ohio should use the remaining funds to help localities transition to a new tax system that better accounts for remote work.

## Background

Since 2020, the COVID-19 pandemic has disrupted the world. Economic activity has slowed, supply chain bottlenecks have made some goods scarce, and the education system has been disrupted. The pandemic caused **unprecedented job losses** in just a few weeks in March and April 2020, and schools closed early with many not returning to full-time classroom instruction until 2021. ARPA, federal legislation enacted in 2021, will distribute **\$200 billion** to states, with **\$5.4 billion** coming to Ohio in two tranches—\$2.65 billion in May 2021, and an estimated \$2.65 billion in May 2022.

The feared pandemic-related declines, however, have not materialized. Most states are not experiencing significant revenue loss and Ohio, for example, has a current fiscal-year surplus, with tax collection bringing in **\$1 billion** over projections. With a healthy surplus, policymakers must resist the temptation to spend taxpayer dollars foolishly and instead spend wisely on areas that need real financial assistance.

## Recommendations

The Buckeye Institute has already recommended using ARPA tax dollars to rebuild Ohio's unemployment fund and help the nearly **1.6 million** K-12 public school students who lost classroom instruction time due to the pandemic. The Buckeye Institute now recommends that Ohio policymakers use ARPA funds to help cities modernize their tax systems so that they rely less on dwindling commuter taxes that tax the income of workers who no longer commute to a different city to work.

As the pandemic persisted, many employers and workers adopted technologies and protocols to allow for “remote work” to be done from home rather than the office. Studies show that remote work is **here to stay**, with almost two-thirds of hiring managers reporting that employees will work remotely at least part of the time. Current **research** estimates that 39 percent of work is done from the home, which will sharply reduce a central city's tax base.

In Ohio, employees are taxed where they work and may also be taxed where they reside. With many employees likely to spend more time working remotely from home, cities will see their

income tax revenues fall as once-commuting taxpayers only remit taxes to their home locale. Commercial real estate taxes could also decline as fewer workers need less commercial office space. Cities need to prepare for **smaller**, more volatile tax revenues by prioritizing spending on core services and eliminating unnecessary programs.

State policymakers should use incoming ARPA tax dollars to help cities transition to a better fiscal system that is less dependent on commuter taxes. Cities need to ensure that their commercial property tax bases are not weakened by corporate tax breaks. **Strong property tax bases are better for localities**, and other states have used local property taxes more effectively than Ohio. As part of this systemic transition, Ohio should offer financial aid to cities that reform their local tax system and adopt **spending reforms** designed to keep them solvent in the future. Policymakers should condition ARPA financial assistance on local fiscal reforms such as reducing tax deductions and credits that dilute city revenues. Such reforms will help them transition and prepare for an evolving, work-from-home future.

## **Conclusion**

Ohio should not use the federal government's mistaken largesse to establish new and permanent spending obligations that will continue after the funds are gone. Instead, Ohio should deploy ARPA funds to help cities transition to more sustainable tax systems.