



UNLOCKING CAPITAL

AN ECONOMIC ANALYSIS OF HB 617

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Introduction

Capital gains occupy an unusual place in state tax codes. They are income, but not paycheck income. They arise when taxpayers sell stock, land, a business interest, or another asset for more than they paid for it, and the tax applies only when the gain is realized.¹ Most states include realized capital gains in their ordinary income tax bases, although some provide exclusions, deductions, or separate tax treatment.² Washington, for example, levies a standalone tax on long-term capital gains,³ while Missouri allows individuals to deduct 100 percent of federally reported capital gains from their state income-tax base.⁴ Unlike wages, however, capital gains can often be deferred simply by holding appreciated assets. That flexibility can discourage transactions and keep capital tied to existing assets rather than allowing it to move to potentially more productive uses.⁵ That matters for economic growth because private investment expands and improves the productive capital stock, supporting productivity and output over time.⁶

House Bill 617 would reduce taxes on capital gains without changing Ohio's tax rates. Ohio does not levy a separate state capital-gains tax. Instead, realized gains flow into taxable income through federal adjusted gross income and are taxed under the state income tax.⁷ House Bill 617 would exclude net capital gains from both the state and municipal income-tax bases while leaving existing tax rates unchanged.⁸

¹ *Topic No. 409, Capital Gains and Losses*, IRS.gov (last visited, September 3, 2026).

² Katherine Loughhead, *State Tax Rates on Long-Term Capital Gains, 2024*, Tax Foundation, April 2, 2024.

³ Washington Department of Revenue, *New Tiered Rates for Washington's Capital Gains Tax*, Dor.Wa.gov, June 30, 2025.

⁴ Missouri Revised Statutes **143.121** (2025).

⁵ Joel Slemrod, *The Lock-In Effect of the Capital Gains Tax: Some Time Series Evidence*, working paper No. 257, National Bureau of Economic Research, September 1978.

⁶ Congressional Budget Office, *The Long-Term Budget Outlook: 2025 to 2055*, March 27, 2025.

⁷ *Ohio Revised Code 5747.01 (2026)*; *Ohio Revised Code 5747.02 (2026)*.

⁸ *H.B. 617*, 136th General Assembly (Ohio 2026).

For example, an Ohio taxpayer who buys stock for \$100,000 in 2020 and sells it for \$150,000 in 2025 realizes a \$50,000 capital gain. But if overall prices rose 20 percent over that period, roughly \$20,000 of the increase would reflect inflation, leaving a real gain of about \$30,000. Under current Ohio law, the taxpayer would still be taxed on the full \$50,000 nominal gain. For a taxpayer above the applicable income threshold, that gain would generate about \$1,375 in state income tax revenue at the 2.75 percent rate. Under House Bill 617, Ohio would no longer collect that revenue because the gain would be excluded from Ohio's tax base, while federal capital-gains taxes would remain unchanged.

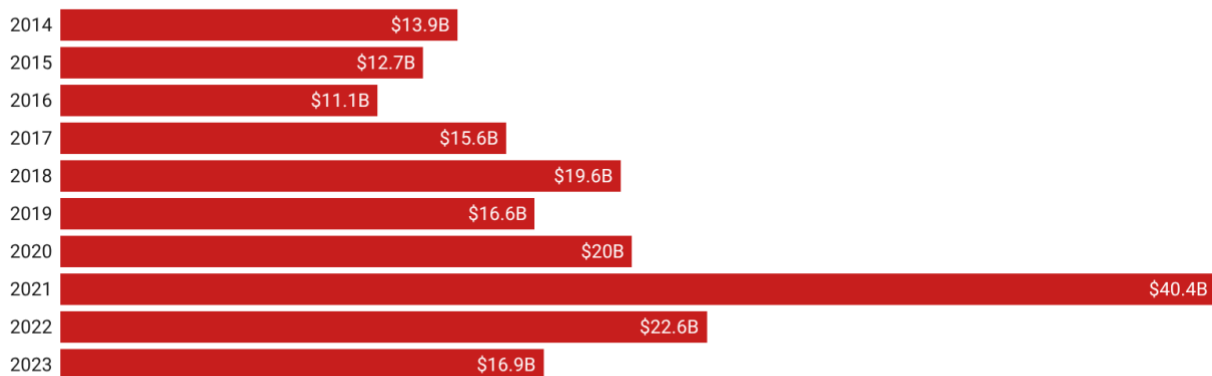
The Legislative Service Commission estimates that House Bill 617 would exempt roughly \$22–\$23 billion in net capital gains from Ohio's taxable income base in tax year 2027, reducing state personal income-tax revenue by about \$615–\$646 million. In 2028, the exempted base would rise to roughly \$23–\$24 billion, with an estimated revenue loss of about \$648–\$680 million.⁹ Evaluating that fiscal cost requires looking beyond the revenue estimate to the nature of the capital-gains tax base and how taxing realized gains affects investment and taxpayer behavior.

Ohio's Capital-Gains Base Moves With Markets

Ohio's capital-gains base is large enough to matter, but too market-sensitive to treat like ordinary wage income. From tax year 2014 through tax year 2023, Ohio taxpayers reported an average of roughly \$19 billion in net capital gains each year. But that average masks substantial year-to-year variation. As Figure I shows, the base fell to \$11.1 billion in 2016, rose to \$40.4 billion in 2021, and then declined to \$22.6 billion in 2022 and \$16.9 billion in 2023. Excluding the unusually high 2021 realization year, the average over the remaining nine years was about \$16.6 billion. Ohio's capital-gains base therefore more than tripled from its 2016 low to its 2021 peak before moving back toward more typical levels.¹⁰

Figure I | Ohio Net Capital Gains Tax Base, 2014–2023

Annual net capital gains reported by Ohio taxpayers, billions of dollars



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Source: Internal Revenue Service • Created with Datawrapper

⁹ Ohio Legislative Service Commission, *H.B. 617 Fiscal Note and Local Impact Statement*, March 17, 2026.

¹⁰ Internal Revenue Service, *SOI Tax Stats—Historic Table 2*, IRS.gov (last visited, September 4, 2026).

The 2021 spike shown in Figure I was not unique to Ohio. Nationally, realized capital gains also surged during the pandemic-era asset-market rebound. The Congressional Budget Office (CBO) found that capital gains per household rose 72 percent in 2021 to the highest level in its data series,¹¹ and estimated that realized capital gains reached 8.7 percent of gross domestic product (GDP) that year—well above the long-run average.¹² The lesson for Ohio is straightforward: capital-gains income is not a smooth, paycheck-style tax base. It rises and falls with asset values, realizations, market conditions, and taxpayer behavior.

The base is also concentrated. In tax year 2023, taxpayers with adjusted gross income above \$200,000 reported nearly 94 percent of Ohio’s net capital gains.¹³ That distribution matters because the direct tax relief under House Bill 617 would also be concentrated among those taxpayers. But distribution alone does not answer the economic question. Who receives the immediate tax benefit is different from whether taxing realized gains discourages asset sales, reinvestment, and the movement of capital to more productive uses.

Capital-Gains Taxes Raise the Cost of Investment

Capital gains taxes can affect investment decisions by lowering the after-tax return investors keep. Investors weigh an investment’s expected return against its cost and risk; when part of that return is taxed, the investment must earn more before tax to remain worthwhile. Some projects at the margin may therefore be delayed or forgone. The CBO explains that higher taxes on capital income can lead investors to demand higher before-tax returns, reducing investment and making capital allocation less efficient.¹⁴ That concern is also reflected in a prominent strand of economic research, under standard long-run assumptions, which finds that the optimal tax on capital income approaches zero because taxing returns to saving and investment can discourage capital accumulation.¹⁵ Those findings do not imply that zero is the right rate in every setting, but they help explain why lower taxes on capital can be relatively pro-growth. At Ohio’s 2.75 percent rate, the effect is more likely to matter at the margin than to produce a dramatic change in economic growth.

Capital gains taxes also affect taxpayers’ decisions about when to sell appreciated assets. Because the tax is due only when a gain is realized, taxpayers can defer the liability by holding the asset longer. When tax rates change or are expected to change, taxpayers may instead accelerate sales to realize gains at a lower rate. This ability to time realizations can shift taxable gains and tax revenue across years and can slow the movement of capital from older investments to newer or more productive uses. The Joint Committee on Taxation has documented taxpayers adjusting

¹¹ Congressional Budget Office, *The Distribution of Household Income in 2021*, September 11, 2024.

¹² Congressional Budget Office, *CBO’s Projections of Realized Capital Gains Subject to the Individual Income Tax*, February 15, 2023.

¹³ Internal Revenue Service, *SOI Tax Stats—Historic Table 2*, IRS.gov (last visited, September 4, 2026).

¹⁴ Congressional Budget Office, *Taxing Capital Income: Effective Marginal Tax Rates Under 2014 Law and Selected Policy Options*, December 18, 2014.

¹⁵ Christophe Chamley, “Optimal Taxation of Capital Income in General Equilibrium with Infinite Lives,” *Econometrica*, Volume 54, Number 3 (May 1986) pp. 607–622; Kenneth L. Judd, “Redistributive Taxation in a Simple Perfect Foresight Model,” *Journal of Public Economics*, Volume 28, Issue 1 (October 1985) pp. 59–83.

realization behavior in response to capital-gains tax rates,¹⁶ and recent state-level research reaches a similar conclusion: capital-gains taxes affect realizations, but the response is not large enough to fully offset the revenue loss from lower rates.¹⁷

These effects also matter for entrepreneurs and growing businesses. Owners of closely held companies and start-ups can accumulate substantial unrealized gains as their businesses grow. A capital gains tax raises the cost of selling a business, transferring ownership, or converting an investment into capital for a next venture.¹⁸ The broader evidence on entrepreneurship is mixed, but research provides stronger support for an effect on external financing for young firms.¹⁹ A study of the federal capital-gains exemption for qualified small-business stock found that the exemption increased investment in qualifying start-ups by about 12 percent per funding round.²⁰ That does not mean every exempted dollar becomes a new investment, but it shows how after-tax returns can influence financing decisions at the margin.

Ohio already provides narrower relief for certain capital gains. House Bill 110 created targeted capital-gains deductions, available beginning in tax year 2026, for certain gains received through certified Ohio venture capital operating companies and for qualifying gains from the sale of an ownership interest in an Ohio business.²¹ House Bill 617 would go further by generally exempting net capital gains rather than limiting relief to selected transactions. The question, then, is how much additional economic activity Ohio would gain relative to the revenue it would give up.

Economic Impact of House Bill 617’s Net Capital-Gains Exemption

Using The Buckeye Institute’s state tax and economic long-run analysis (STELA)²² model to estimate the economic effects of House Bill 617, The Buckeye Institute finds that exempting net capital gains would increase private economic activity while reducing state tax revenue. The model is calibrated to Ohio’s economy and tax structure, uses the Legislative Service Commission’s estimated static revenue loss to calibrate the policy shock, and compares the results with a current-law baseline.

In 2027, Ohio’s GDP is estimated to increase by \$1.15 billion, private investment by \$730 million, personal consumption by \$110 million, and employment by about 1,400 jobs, while state tax revenue is estimated to decline by about \$650 million. (See Table I.)

¹⁶ Joint Committee on Taxation, *Estimating Taxpayer Bunching Responses to the Preferential Capital Gains Tax Rate Threshold*, JCX-42-19, September 10, 2019.

¹⁷ Ole Agersnap and Owen Zidar, “*The Tax Elasticity of Capital Gains and Revenue-Maximizing Rates*,” *American Economic Review: Insights*, Volume 3, Issue 4 (December 2021) pp. 399–416.

¹⁸ William M. Gentry, *Capital Gains Taxation and Entrepreneurship*, working paper, Williams College, March 2016.

¹⁹ Diana Hourani and Sarah Perret, *Taxing Capital Gains: Country Experiences and Challenges*, OECD Taxation Working Papers, No. 72, OECD Publishing, February 2025.

²⁰ Alexander Edwards and Maximilian Todtenhaupt, “*Capital Gains Taxation and Funding for Start-Ups*,” *Journal of Financial Economics*, Volume 138, Issue 2 (November 2020) pp. 549–571.

²¹ Ohio Legislative Service Commission, *H.B. 110 Final Analysis*, September 8, 2021, pp. 438-441; *H.B. 110*, 134th General Assembly (Ohio 2021).

²² Complete methodology for STELA is available [here](#).

In 2036, GDP is estimated to increase by \$1.63 billion, private investment by \$990 million, personal consumption by \$190 million, and employment by about 1,400 jobs, while state tax revenue is projected to decline by \$930 million. Measured against the revenue loss, STELA estimates about \$1.75 in additional GDP for every \$1 of state revenue lost by 2036. Overall, House Bill 617 is estimated to increase economic activity, with a substantial response in private investment, while state tax revenue remains lower than under the current law.

Table I | Economic Effects of H.B. 617's Net Capital-Gains Exemption²³

Year	GDP	Employment	Tax Revenue	Consumption	Investment
2027 Baseline	\$1.01T	5.68M	\$42.0B	\$633.7B	\$224.9B
2027 Change	\$1.15B	1.44K	-\$650M	\$110M	\$730M
2028 Baseline	\$1.05T	5.69M	\$43.7B	\$661.7B	\$234.0B
2028 Change	\$1.20B	1.45K	-\$680M	\$110M	\$730M
2029 Baseline	\$1.09T	5.70M	\$45.4B	\$691.0B	\$243.4B
2029 Change	\$1.25B	1.45K	-\$710M	\$120M	\$750M
2030 Baseline	\$1.13T	5.71M	\$47.3B	\$721.5B	\$253.2B
2030 Change	\$1.30B	1.44K	-\$740M	\$130M	\$780M
2031 Baseline	\$1.18T	5.72M	\$49.2B	\$753.4B	\$263.5B
2031 Change	\$1.35B	1.44K	-\$760M	\$140M	\$810M
2032 Baseline	\$1.22T	5.73M	\$51.1B	\$786.7B	\$274.1B
2032 Change	\$1.40B	1.44K	-\$800M	\$150M	\$840M
2033 Baseline	\$1.27T	5.74M	\$53.2B	\$821.5B	\$285.1B
2033 Change	\$1.46B	1.44K	-\$830M	\$160M	\$880M
2034 Baseline	\$1.33T	5.75M	\$55.3B	\$857.8B	\$296.6B
2034 Change	\$1.51B	1.43K	-\$860M	\$170M	\$910M
2035 Baseline	\$1.38T	5.76M	\$57.5B	\$895.7B	\$308.6B
2035 Change	\$1.57B	1.43K	-\$890M	\$180M	\$950M
2036 Baseline	\$1.43T	5.77M	\$59.8B	\$935.3B	\$321.0B
2036 Change	\$1.63B	1.43K	-\$930M	\$190M	\$990M

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²³ The Buckeye Institute's STELA model. Note: Dollar figures are in 2025 dollars, employment is full-time equivalent non-farm jobs.

Conclusion

House Bill 617 presents Ohio with a clear tax policy trade-off. Exempting net capital gains would reduce a volatile, realization-based tax burden and strengthen incentives to invest and move capital to more productive uses. Still, it would also create a recurring reduction in state revenue. That fiscal cost should be treated as a real budget constraint, not as something economic growth will automatically replace.

Ohio already provides narrower relief for certain venture-capital and business-sale gains. House Bill 617 would broaden that approach by generally removing net capital gains from the state and municipal income-tax bases. If lawmakers pursue the exemption, they should pair the reduction in recurring revenue with ongoing spending discipline rather than relying on one-time reserves or temporary revenue surpluses. A permanent tax cut requires a sustainable budget response.

Tax reform need not be costless to be worthwhile. The case for House Bill 617 rests on whether reducing the tax cost of realizing gains can encourage investment and improve the productive allocation of capital sufficiently to justify the revenue Ohio would forgo. The evidence and economic results presented here point toward a more investment-friendly tax code, while leaving lawmakers with a fiscal tradeoff they should address directly.

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