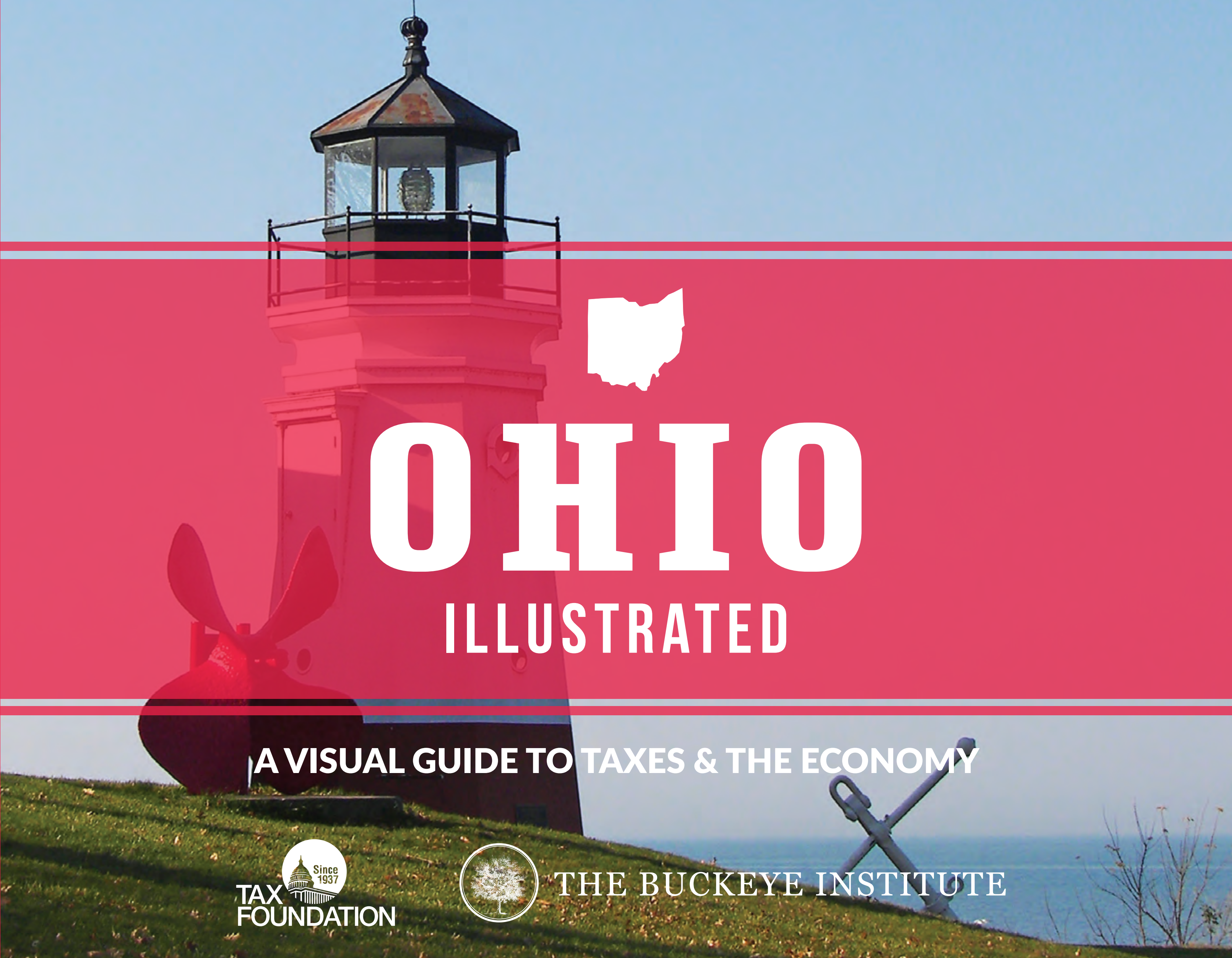

OHIO ILLUSTRATED

A VISUAL GUIDE TO TAXES & THE ECONOMY

TAX FOUNDATION Since 1937

THE BUCKEYE INSTITUTE

OHIO ILLUSTRATED

A VISUAL GUIDE TO TAXES & THE ECONOMY

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Introduction

Taxes are complicated. Each state's tax code is a multifaceted system with many moving parts, and Ohio is no exception. This chart book provides readers with a broad perspective on the impact of Ohio's overall economy and tax system. It also provides detailed illustrations to each of Ohio's major taxes–individual income taxes, business taxes, sales and excise taxes, and property taxes–to help make the complicated task of understanding the state's tax code a bit easier.

These charts were compiled by Tax Foundation staff and edited by Morgan Scarboro.

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CHAPTER 1

An Overview of the Ohio Economy

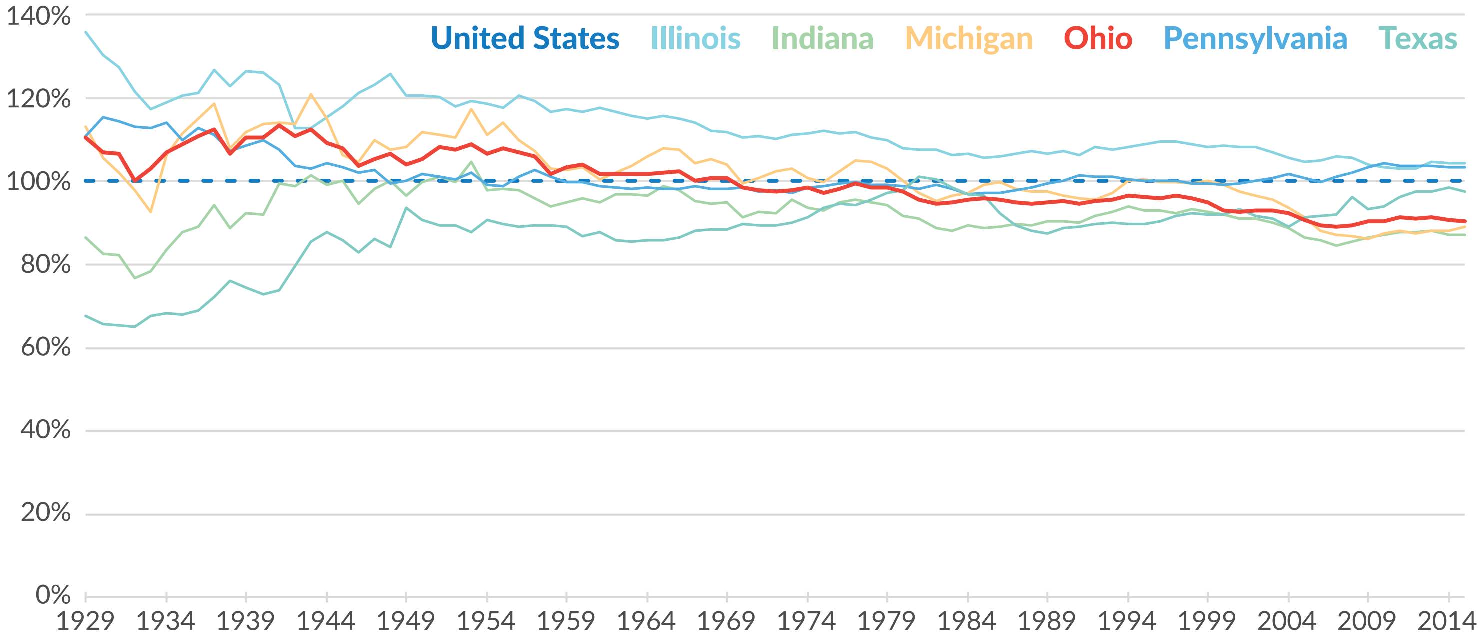
The following charts illustrate the past and present performance of Ohio's economy. We show how various economic indicators, such as personal income per capita, state gross domestic product, unemployment, and migration, have changed over time. We compare Ohio to five other states – Illinois, Indiana, Michigan, Pennsylvania, and Texas – that compete with Ohio for jobs and opportunity.

By some measures, like unemployment, Ohio has tracked fairly closely with the national average, but the state has fallen behind in other metrics, like per capita income. These challenges, combined with an older workforce and consistent out-migration, suggest that Ohio may soon face more challenges.

Cleveland Arcade

Ohio's Income per Person is Lower than the U.S. and Peers' Levels

Personal Income per Capita as a Percent of the U.S. Level, Ohio and Selected States (1929-2015)

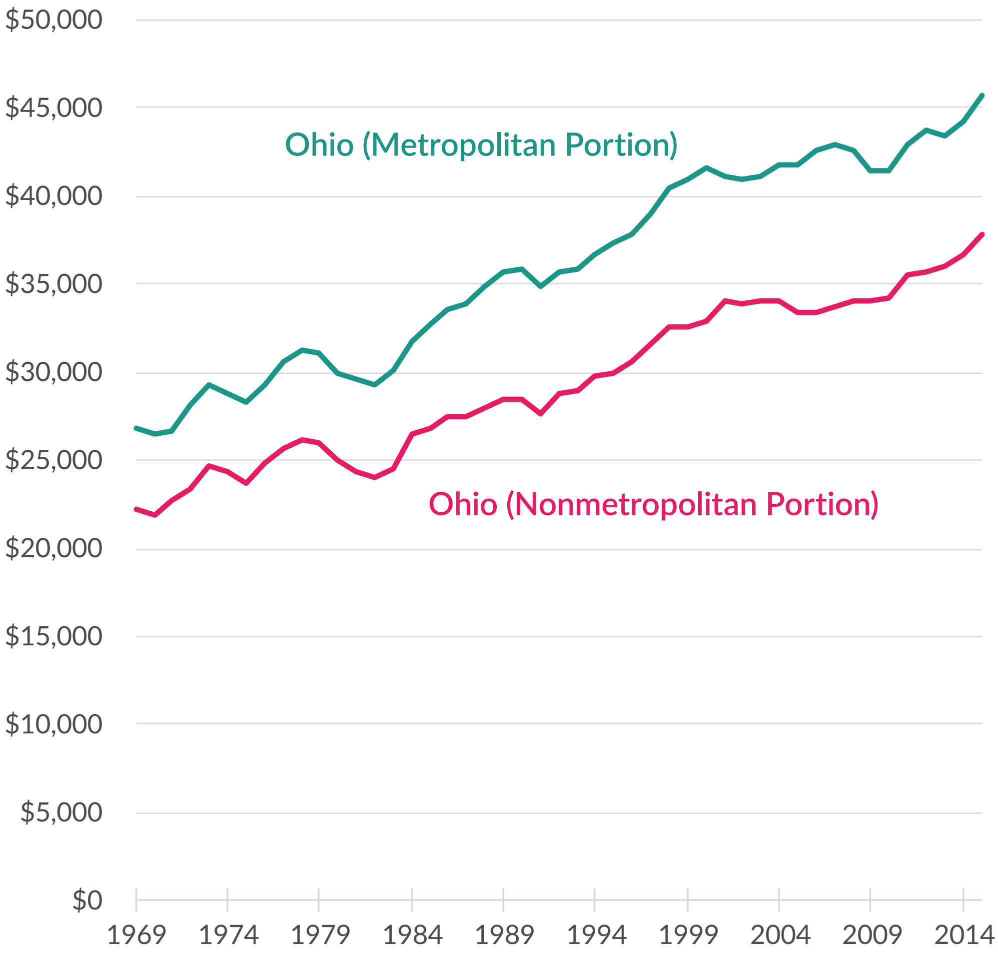


For many years, Ohio's income per capita was above the U.S. level and several of its peer states. In 1970, however, Ohio's per capita personal income fell below the national average and has yet to recover. In 2015, per capita personal income was only 91 percent of the national level, down from its peak of 113 percent in 1941. Ohio's per person income is below most of its peer states as well, exceeding only Indiana and Michigan.

Source: Bureau of Economic Analysis, *Regional Economic Accounts*, "Annual State Personal Income and Employment."

Ohio's Metro Income Tends to be Higher than Nonmetro

Personal Income per Capita, Metro and Nonmetro Ohio (1969-2015)



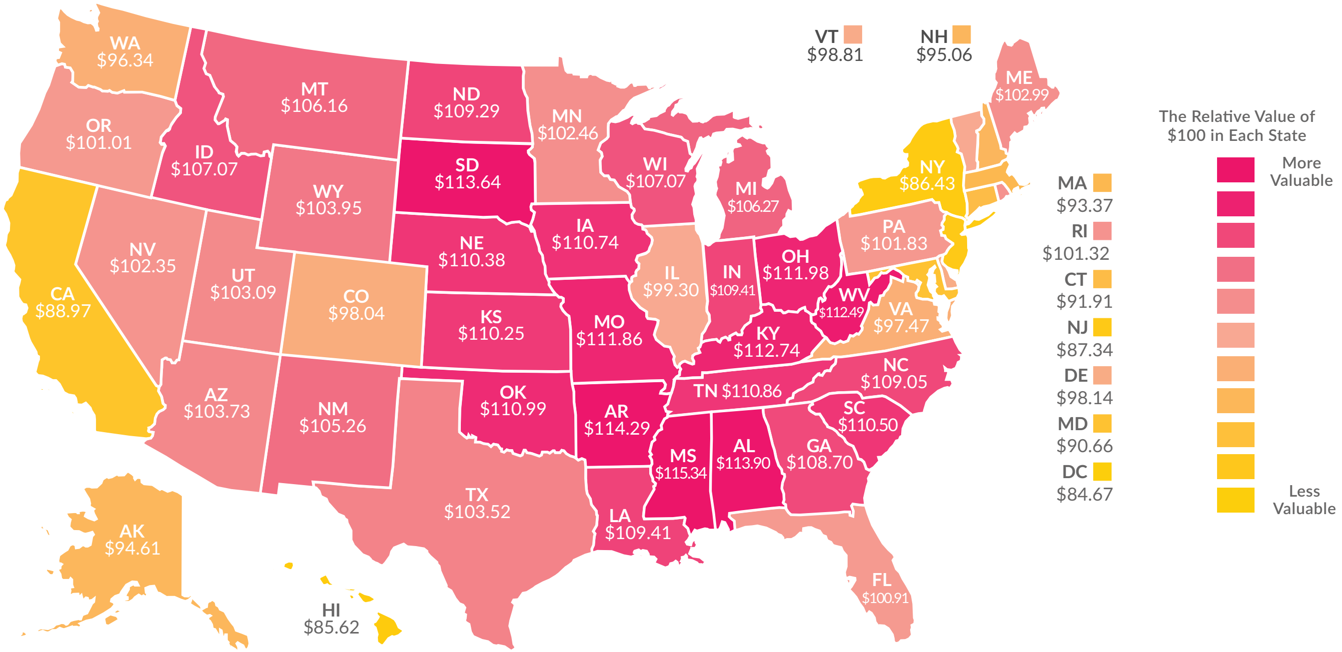
As in other states, personal income per capita varies throughout Ohio. Personal income tends to concentrate in metropolitan areas and lags in nonmetropolitan areas throughout the state. In 1969, personal income per capita in metro areas was $26,800, compared to $22,157 in nonmetro areas. Since then, both metro and nonmetro income have grown by roughly 71 percent. In 2015, metro per person income was $45,146, compared to $37,395 in nonmetro areas.

Note: Dollar amounts are inflation-adjusted based on the annual average Consumer Price Index for All Urban Consumers (CPI-U) with a 2016 base year.

Source: Bureau of Economic Analysis, *Regional Economic Accounts*, "Local Area Personal Income and Employment."

Ohio's Cost of Living is Lower than its Peer States

Regional Price Parity (2014)

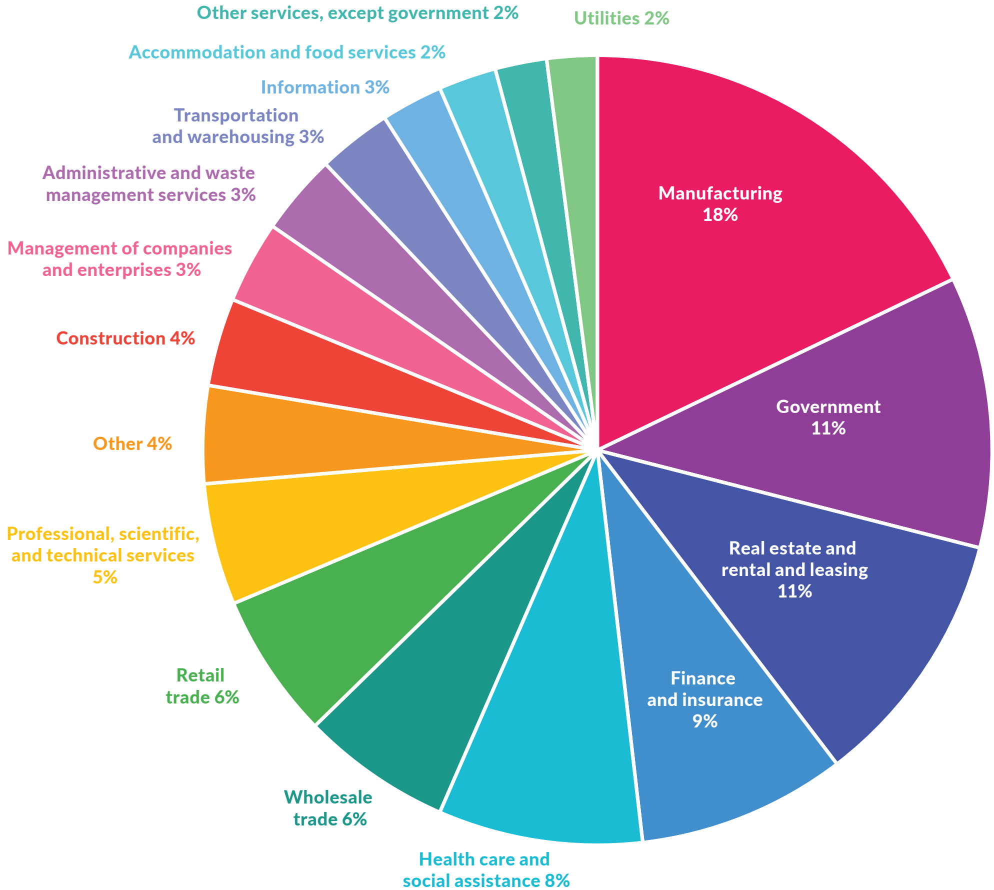


The real value of a dollar varies among states, as the cost of everyday items, such as food and housing, differs by geographic area. This information, known informally as a state's cost of living, tells us where an individual's buying power is stronger. Using regional price parity data, this map is adjusted to show the value of $100 in each state. Money stretches further in Ohio, with the real value of $100 being almost $112. This indicates that Ohio has a lower cost of living than much of the country and all its peer states. The cost of living is an important consideration when comparing regional incomes.

Source: Bureau of Economic Analysis, *Regional Price Parities*.

Manufacturing Comprises the Largest Portion of Ohio's Economy

Percent of State GDP by Sector, Ohio Statewide (2016)



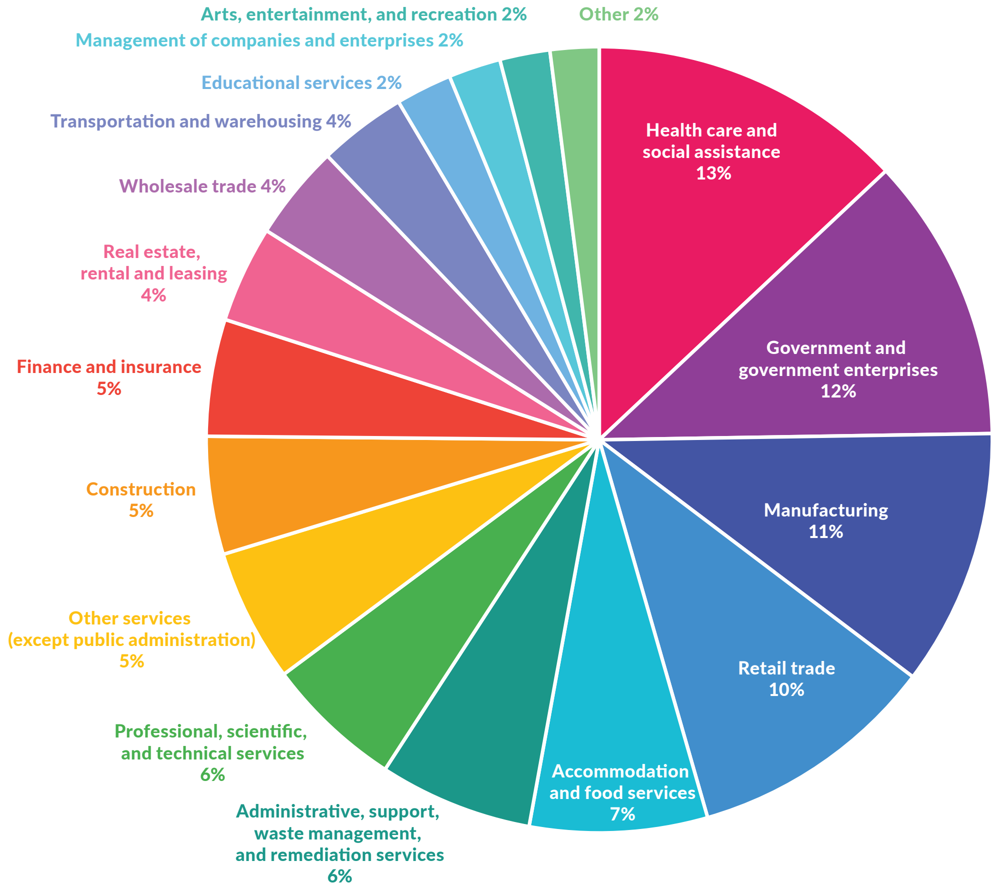
Ohio's economy is dominated by five industries: manufacturing (18 percent), government (11 percent), real estate (11 percent), finance and insurance (9 percent), and health care and social assistance (8 percent). Together, these industries made up 57 percent of Ohio's gross domestic product in 2016. However, because each sector has distinct differences, policymakers must work to create a productive environment for all industries instead of picking winners and losers in the tax code.

Note: Percentages may not total 100 due to rounding. The "other" category includes mining, arts, entertainment and recreation, educational services, and agriculture.

Source: Bureau of Economic Analysis, *Regional Economic Accounts*, "Gross Domestic Product (GDP) by State – GDP in current dollars."

Health Care, Government, and Manufacturing Employ the Most People in Ohio

Percent of Total Nonfarm Employment by Industry, Ohio (2015)



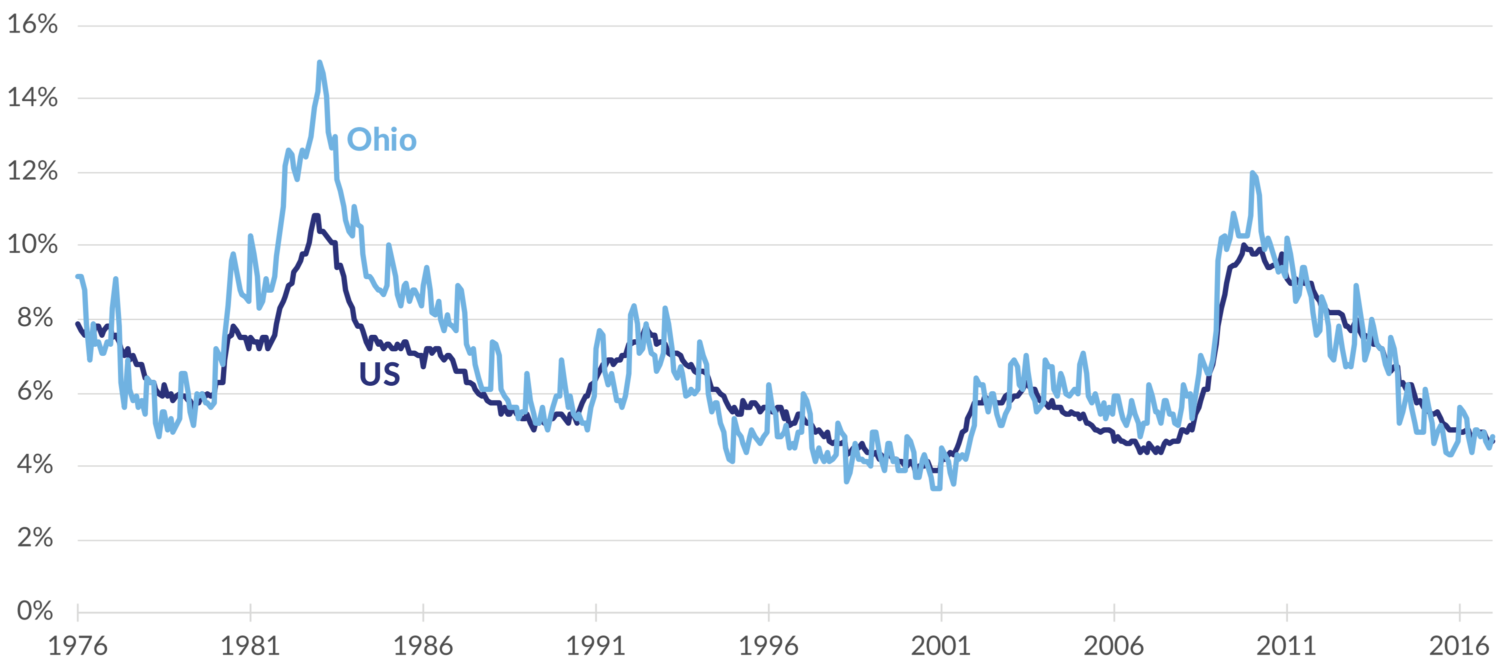
Although manufacturing is the largest sector of Ohio's economy, health care and social assistance employs the greatest percentage of workers at 13 percent, followed by state and local government (12 percent). Manufacturing is third, comprising 11 percent of state employment. This measure differs from state GDP produced by sector due to some industries being more labor-intensive than others. For instance, health care is the fifth largest industry in Ohio, but employs the greatest percentage of workers.

Note: Percentages may not total 100 due to rounding. The "other" category includes forestry and related activities, mining, utilities, and information.

Source: Bureau of Economic Analysis, *Annual State Personal Income and Employment*, "Total Full-Time and Part-Time Employment by NAICS Industry."

Ohio's Unemployment Rate Fluctuates Around the U.S. Average

Monthly Seasonally-Adjusted Unemployment Rate, Ohio and U.S. (1976-2016)

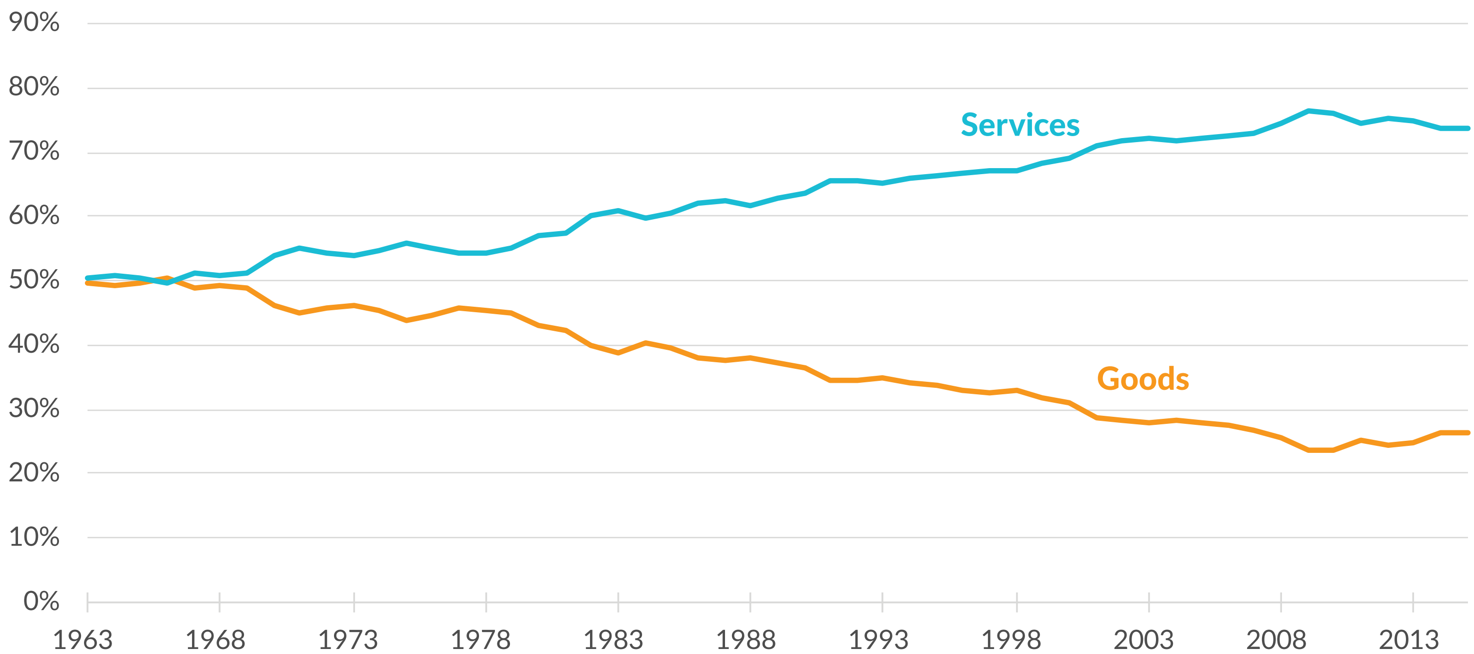


Ohio's recent unemployment history can be divided into four main periods. From 1976 until 1990, Ohio's unemployment rate was typically higher than the U.S. average. It peaked at 13.9 percent in 1982 and again in 1983, both times over three percentage points higher than the U.S. average. From 1990 to 2002, the rate tended to track below the U.S. average, with a historical low of 3.8 percent. It flipped again from 2002 to 2011, mostly rising above the U.S. average, until it dropped back below the national average again in 2011. Starting in 2016, the rate was at or above the U.S. average.

Source: Bureau of Labor Statistics, *Local Area Unemployment Statistics.*

Ohio's Economy is Shifting from Goods to Services

Goods and Services as a Percent of Total Private State GDP, Ohio Statewide (1963-2015)

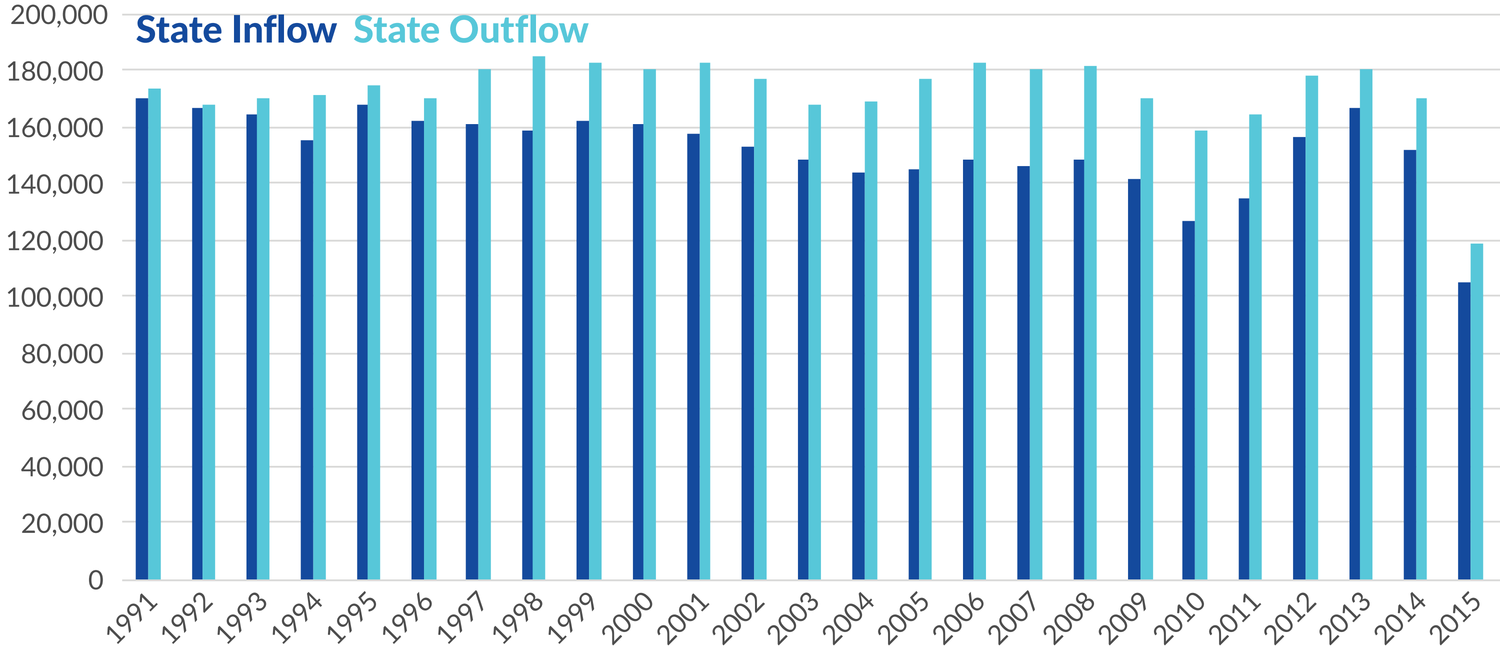


Like most states, the composition of Ohio's economy has changed dramatically over the past 50 years. In 1963, economic sectors involving the production of tangible goods – agriculture, construction, manufacturing, and mining – made up half of Ohio's economy based on the share of state GDP. Today, those sectors comprise only 26 percent of the economy. In the same time period, the share of the economy from the service-producing industries has grown from 50 percent to 74 percent.

Source: Bureau of Economic Analysis, *Regional Economic Accounts*, "Gross Domestic Product (GDP) by State – GDP in current dollars."

Ohio Has Had a Net Loss of More than Half a Million People over the Last Two Decades

Migration To and From Ohio Based on the Number of Federal Tax Exemptions Claimed (1991-2015)

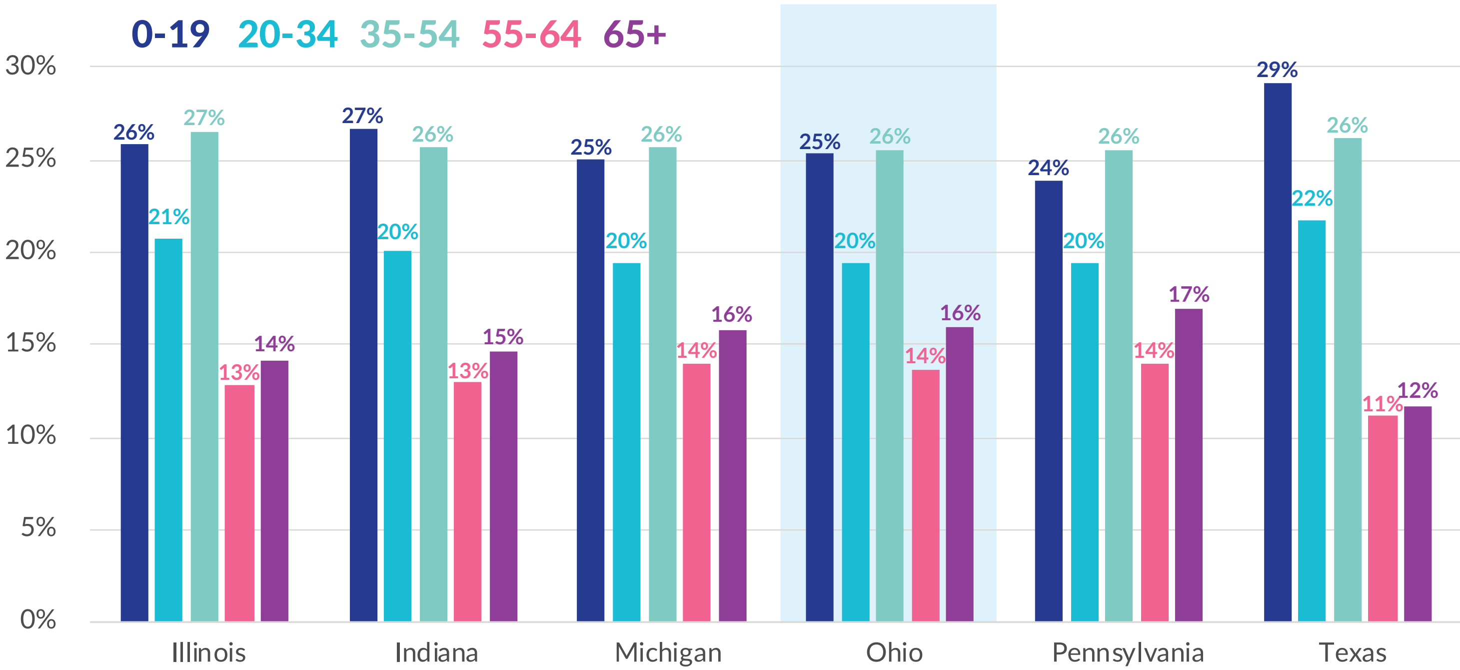


Since the 1990s, Ohio has consistently seen a net outflow of people leaving the state. Since 1991, Ohio has seen a net of 512,139 people leave the state, with net out-migration occurring every year. In the same time period, the state has, on net, lost approximately 218,270 people to Michigan and 193,000 people to Florida. Although people move for many reasons, this is still an important metric for states to measure, as it affects their tax base.

Source: Internal Revenue Service, Statistics of Income Tax Stats, "State-to-State Migration Data."

Ohio is Home to an Aging Workforce and Many Retirees

Age Groups as a Percent of Total Population for Ohio and Peer States (2015)



Just under 45 percent of all Ohio residents are younger than 34 years old, a percentage smaller than most of Ohio's peer states. Only Michigan and Pennsylvania have a smaller percentage of their population younger than 34. The state also has a high number of retirees (65+) compared to its peer states, with retirees comprising almost 16 percent of the population. This can present challenges for the state in terms of a shrinking tax base.

Source: Census Bureau, *2015 American Community Survey.*

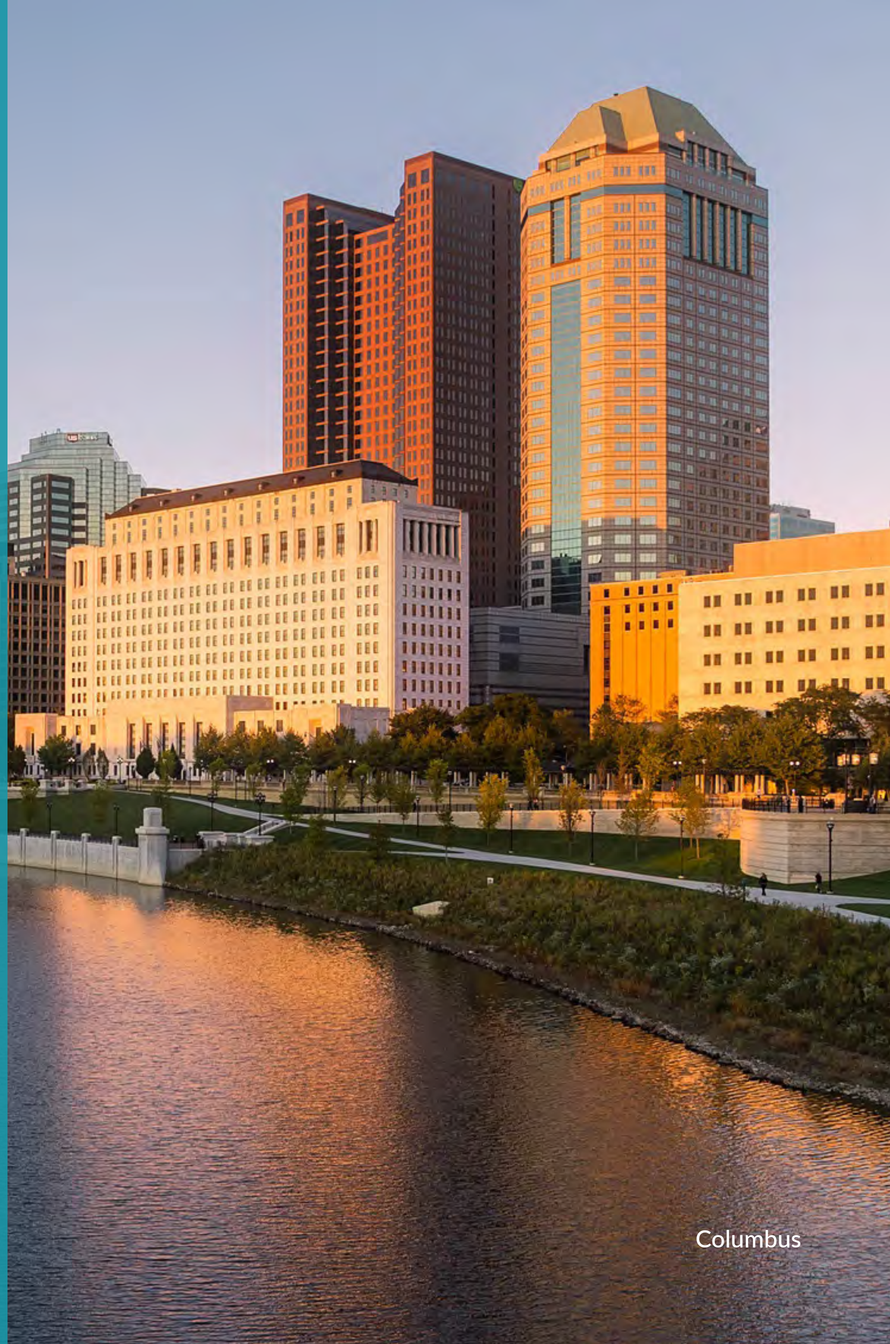
CHAPTER 2

An Overview of Ohio's Tax Code

State and local governments in Ohio rely on a variety of taxes to fund operations. Some types are well-known, such as the individual income, sales, and property taxes. But others are less discussed, such as excise taxes on cell phones and alcohol, and the state's municipal taxes. Like all states, Ohio also receives significant revenue transfers from the federal government to help meet the state's health insurance, transportation, and education needs.

In general, Ohio residents face a high state and local tax burden. Residents paid 9.8 percent of their income to state and local taxes in fiscal year 2012 (the most recent data available). Tax collections continue to rise, even after adjusting for inflation. Inflation-adjusted collections are up 48 percent since 1985.

Tax rates contribute to a state's competitiveness, but other factors matter as well. Tax bases and tax structures play an essential role in determining the strength of a state's tax climate. Ohio's harmful gross receipts tax and complex municipal tax system make the state uncompetitive.



Columbus

Ohio's Taxes at a Glance

This page provides a brief overview of tax rates, tax collections, and other basic structural features of Ohio's tax code.

General Info

		Rank	Nat. Avg.
Income per capita	$43,566	30th	$48,112
Federal aid as % of gen. revenue	35%	13th	30%
State debt per capita	$7,404	32nd	$9,327
Tax Freedom Day	April 19th	26th	April 24

Individual Income Tax

		Rank
Number of brackets	9	3rd
Top tax rate	4.997%	35th
Collections per capita	$1,123	17th

Commercial Activities Tax

Number of brackets	1
Tax rate	0.26%

Sales Tax

		Rank
State rate	5.75%	27th
State + average local rate	7.14%	19th
Collections per capita	$1,052	24th

Property Tax

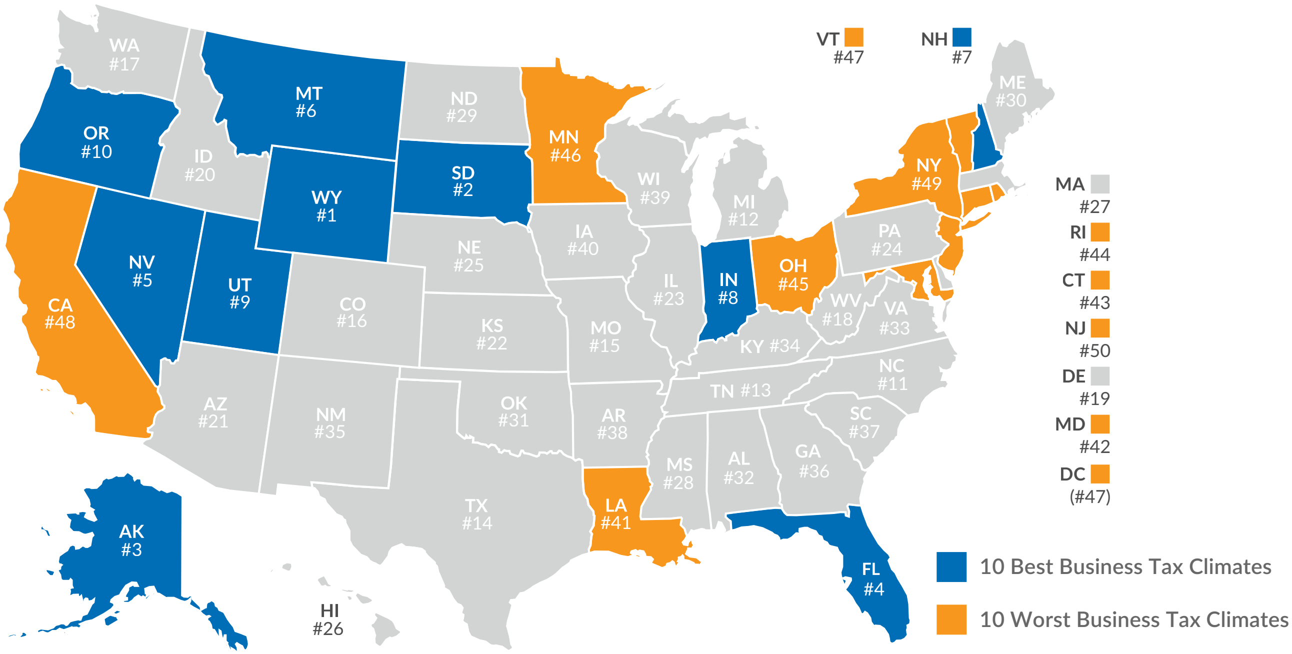
		Rank
Collections per capita	$1,203	28th
Effective residential property tax rate	1.57%	9th

Note: All collections, federal aid, and state debt figures listed on this page are state and local per capita collections for the 2014 fiscal year. Income per capita is for the 2015 calendar year. Individual income and Commercial Activities Tax tax rates are as of January 1, 2017. "State and local debt" is defined as the outstanding debt at the end of the fiscal year, as calculated by the Census Bureau. Ranks are sorted from highest to lowest. The Census Bureau does not classify revenue from gross receipts taxes.

Source: Tax Foundation, *Facts & Figures 2017: How Does Your State Compare?*

Ohio Has One of the Worst Business Tax Climates in the Country

Ohio Ranks 45th out of 50 in the State Business Tax Climate Index (2017)



The *State Business Tax Climate Index* measures the structure of each state's tax code by reviewing more than 100 variables. States with low rates, broad bases, and simple structures score the highest. Ohio currently ranks 45th on our *Index* and is hindered particularly by its poor corporate (including the state's gross receipts tax) and individual income tax structures.

Note: A rank of 1 indicates the state's tax climate is more favorable to business; a rank of 50 indicates the state's tax system is less favorable to business. The corporate income tax variables include the impact of Ohio's Commercial Activities Tax (CAT).

Source: Tax Foundation, *2017 State Business Tax Climate Index.*

Ohio's Business Tax Climate Trails Its Peers'

State Business Tax Climate Index Rankings, Ohio and Selected States (2017)

	Overall	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Unemployment Insurance Tax Rank	Property Tax Rank
Illinois	**23**	26	10	35	38	46
Indiana	**8**	23	11	10	10	4
Michigan	**12**	8	14	9	47	25
Ohio	**45**	45*	47	29	4	11
Pennsylvania	**24**	44	17	20	45	32
Texas	**14**	49	6	37	12	37

Breaking the *State Business Tax Climate Index* into its components allows us to compare the structure of each major tax type. All of its peer states have a better business tax climate than Ohio, hurting Ohio's competitiveness. Neighboring Indiana has the eighth best structure in the country. This is an important metric for the state as a poor tax structure is more likely to stifle economic growth.

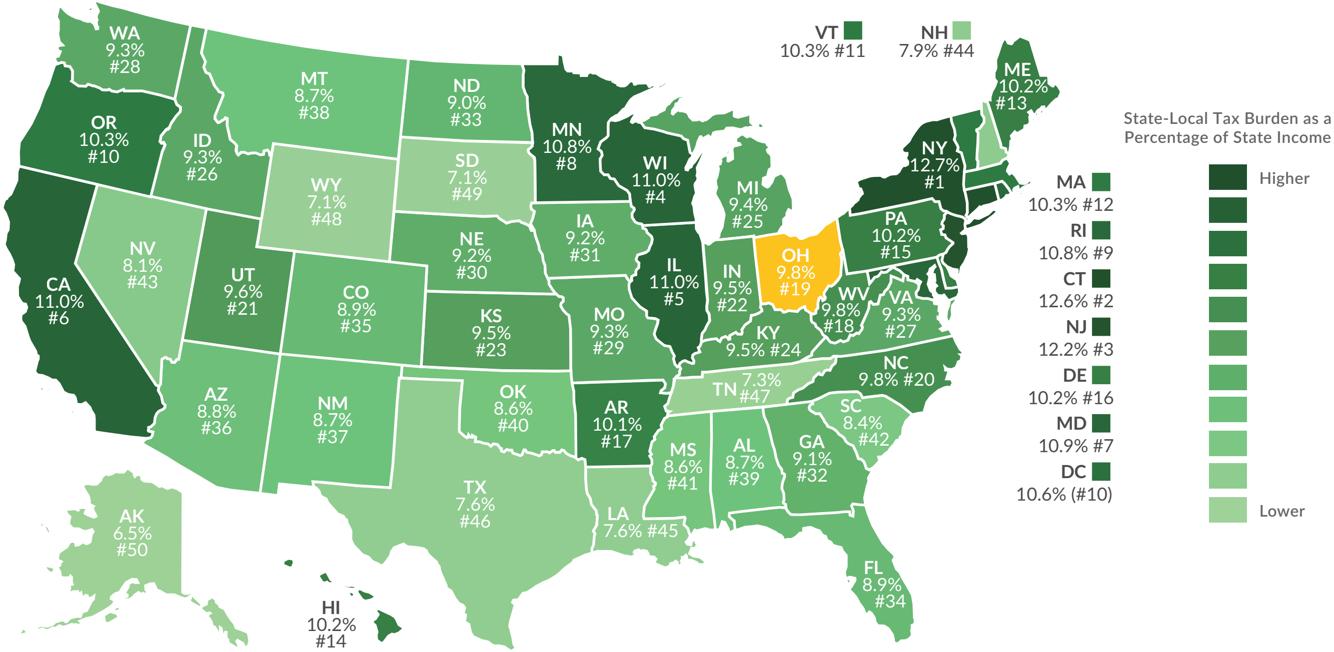
* The corporate income tax variables include the impact of Ohio's Commercial Activities Tax (CAT).

Note: A rank of 1 indicates the state's tax system is more favorable to business; a rank of 50 indicates the state's tax system is less favorable to business. The snapshot date is July 1, 2016. Component rankings do not average to the overall rank. States without a given tax rank equally as number 1 in that component. Texas does not have an individual income tax, but its Margin Tax affects its individual income tax component ranking.

Source: Tax Foundation, *2017 State Business Tax Climate Index*.

Ohio's Tax Burden Ranks 19th in the Nation

Total State-Local Tax Burdens as a Percent of State Residents' Income (FY 2012)



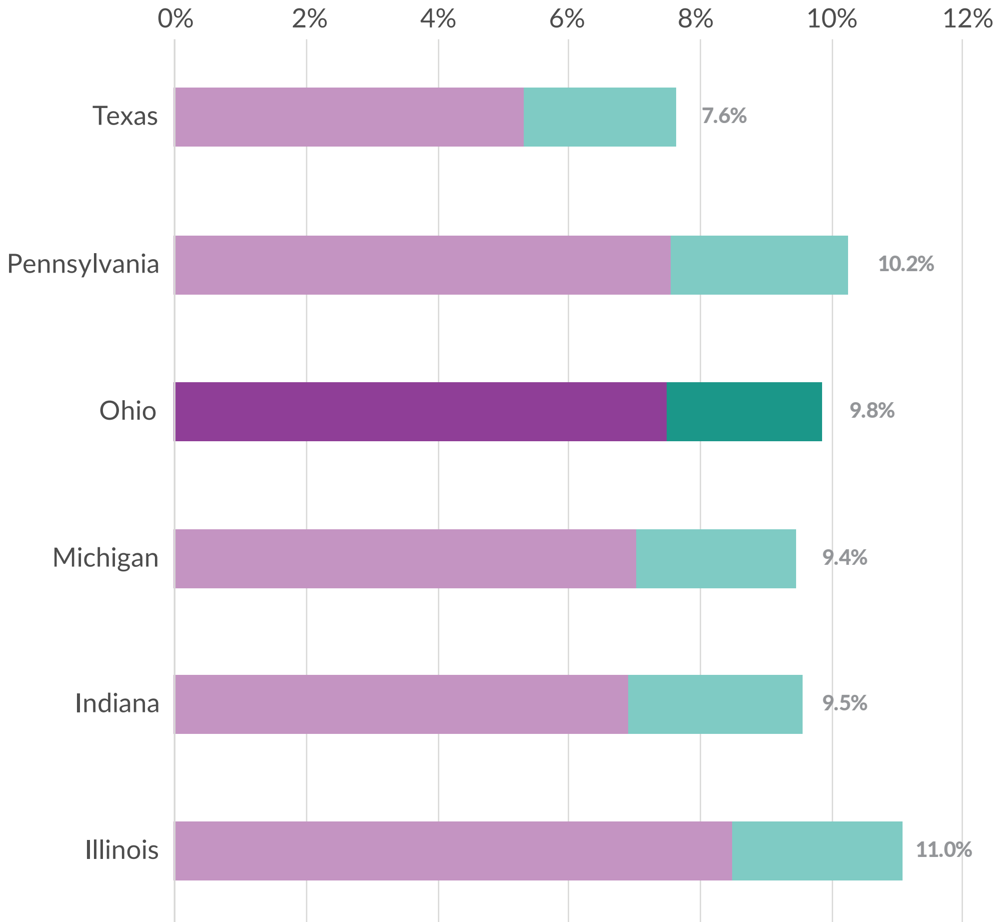
A state's tax burden measures the amount of personal income that residents pay in state and local taxes, both to in-state and out-of-state governments. Ohio residents pay taxes to other states in multiple ways, such as sales taxes paid while traveling, out-of-state gasoline purchases, and property taxes on vacation homes. Ohio residents paid 9.8 percent of personal income, or $3,924 per capita, to state and local taxes in fiscal year 2012.

Note: Total state-local tax burden includes all taxes levied by state and local governments. For a full list of taxes included, see Tax Foundation, "State-Local Burden Rankings: Methodology" (January 2016).

Source: Tax Foundation, "State-Local Tax Burden Rankings FY 2012".

Ohio's Tax Burden is Higher Than Some of Its Peers'

Total State-Local Tax Burden as a Percent of State Residents' Income, Ohio and Selected States (FY 2012)

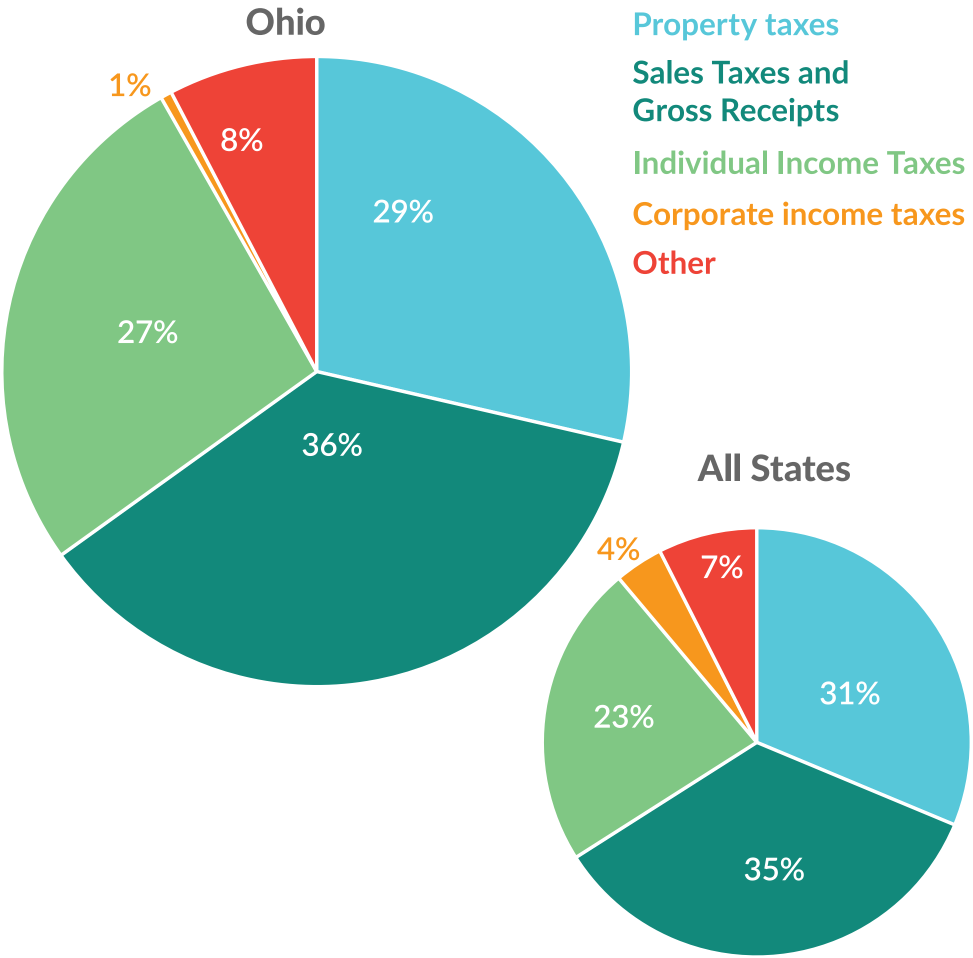


Ohio's total state-local burden is 19th highest when compared with the rest of the country, slightly below the national average but above many of its peer states. Ohio taxpayers, on average, paid 9.8 percent of their income, or $3,924, in state and local taxes in 2012. Of that amount, Ohio residents paid $2,986 to state and local governments in Ohio, and the remaining $938 to out-of-state taxing authorities.

Source: Tax Foundation, "State-Local Tax Burden Rankings FY 2012".

Composition of Ohio's Tax Revenue is Similar to the National Average

Percent of Total Combined State and Local Tax Collections by Tax Type, Ohio and U.S. (2014)



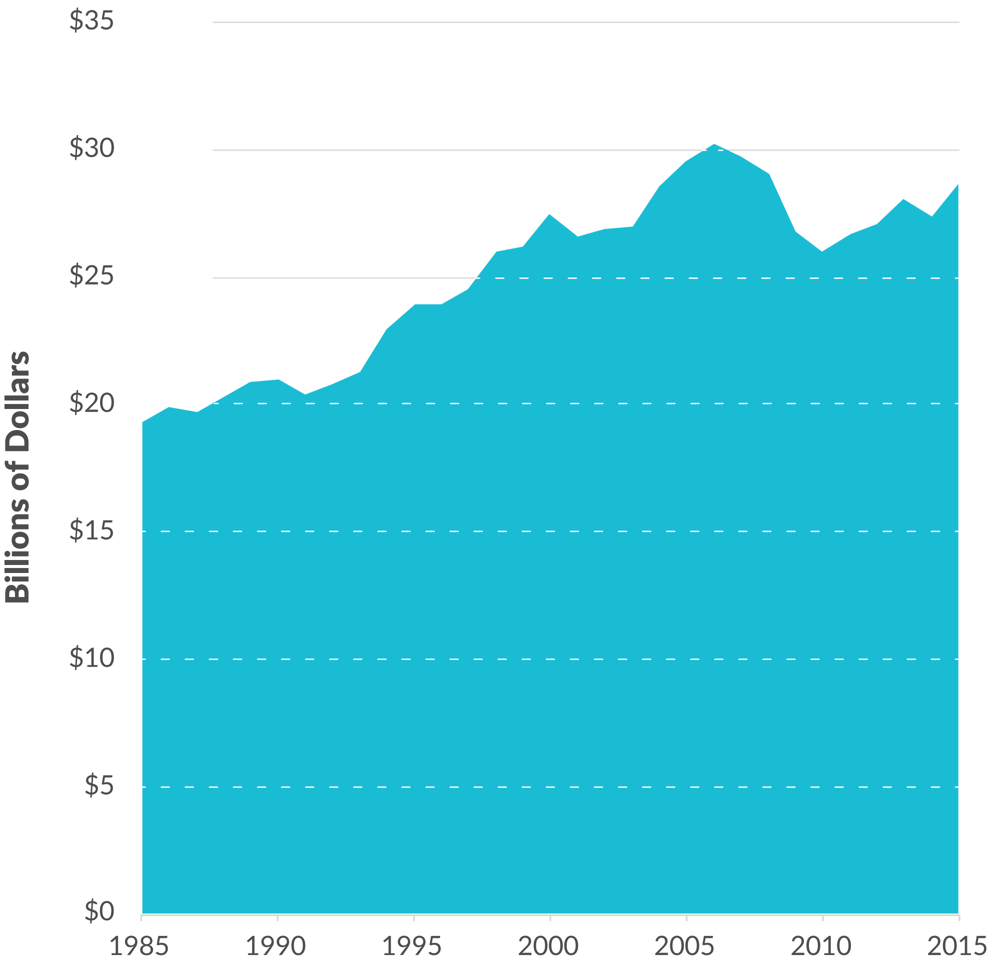
When Ohio's state and local tax collections are compared to the rest of the country, the state is close to average, with a few exceptions. Ohio leans slightly more on individual income taxes (27 percent of total) and sales taxes and gross receipts taxes (36 percent), but less on property taxes (29 percent) and traditional corporate income taxes (1 percent). However, Ohio does not levy a statewide traditional corporate income tax. The reported collections are from local taxes. Corporate income taxes are the smallest share of major tax types in both Ohio and the United States.

Note: Percentages may not total 100 due to rounding.

Source: Census Bureau, *State and Local Government Finances*.

State Tax Collections Have Grown by 48 Percent in Three Decades

Total State Tax Collections, Ohio (1985-2015)



Over time, Ohio's inflation-adjusted state tax collections have grown by 48 percent. In 1985, collections totaled approximately $19.3 billion. By 2015, collections had grown to $28.7 billion. Over the same period, the population grew by approximately 870,000 people, or 8 percent.

Note: Dollar amounts are inflation-adjusted based on the annual average for All Urban Consumers (CPI-U) with a 2016 base year.

Source: Census Bureau, *State Government Tax Collections.*

CHAPTER 3

Individual Income Taxes

Forty-one states tax wage income, with the majority (33 states) using graduated-rate structures. Ohio is one of those states, but its large number of brackets stands out. With nine individual income tax brackets, Ohio has the third most brackets in the country. Its top marginal tax rate of 4.997 percent, however, is relatively low, ranking 35th in the country.

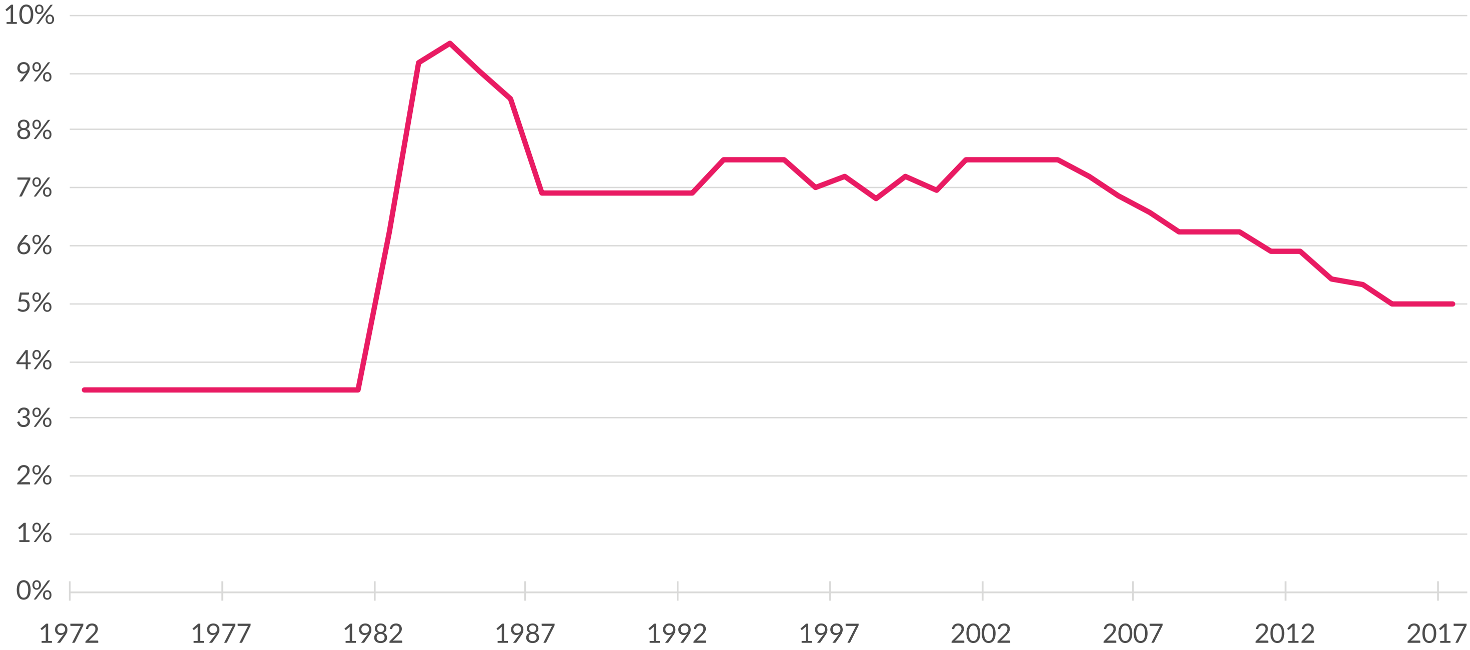
The municipal income tax system, which stacks on top of the state rate, makes Ohio's individual income tax system one of the worst in the country. Municipalities are permitted to levy income taxes on taxpayers both where they work and where they live. Most municipalities offer credits to offset the tax paid to the city where an employee works, but not all do. This can lead to combined state and local marginal tax rates around 9 percent, comparable to high-tax states, like New York and New Jersey.

Businesses are required to withhold state income taxes, municipal tax owed to where an employee works, and any applicable school district tax. They may choose to withhold the municipal income tax owed to the employee's residence as well.

Cleveland Museum of Art

Ohio’s Top Income Tax Rate Has Fluctuated over Time

Ohio’s Top Marginal Individual Income Tax Rate (1972-2017)



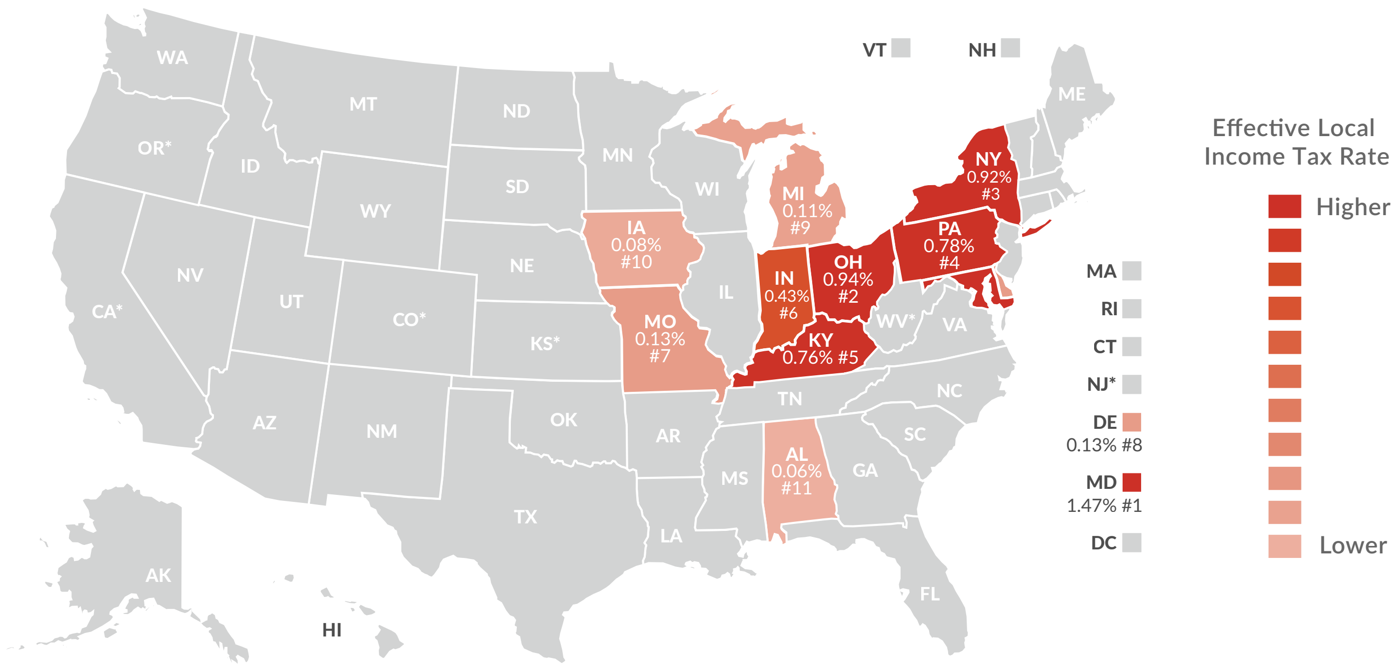
Ohio didn’t impose its individual income tax until 1972, well after most states adopted theirs in the 1920s and ’30s. Since then, Ohio’s rate has fluctuated considerably. The top rate peaked in 1984 at 9.5 percent, but has been falling for almost twenty years. Today, Ohio has nine income tax brackets, which are adjusted for inflation annually, ranging from 0.495 percent to 4.997 percent on income above $210,600.

Note: This is representative of only the state rate and does not account for any municipal income taxes, which can considerably increase the marginal tax rate.

Source: Ohio Department of Taxation.

Local Income Taxes Raise the Marginal Tax Rate

Effective Local Income Tax Rate by State, 2014



Ohio is one of only 17 states that levies local income taxes. Of those states, Ohio has the second highest effective rate at 0.94 percent. Marginal municipal income tax rates range from 0 to 3 percent, with higher rates typically levied in metropolitan areas. For instance, the rate in Cleveland is 2.5 percent.

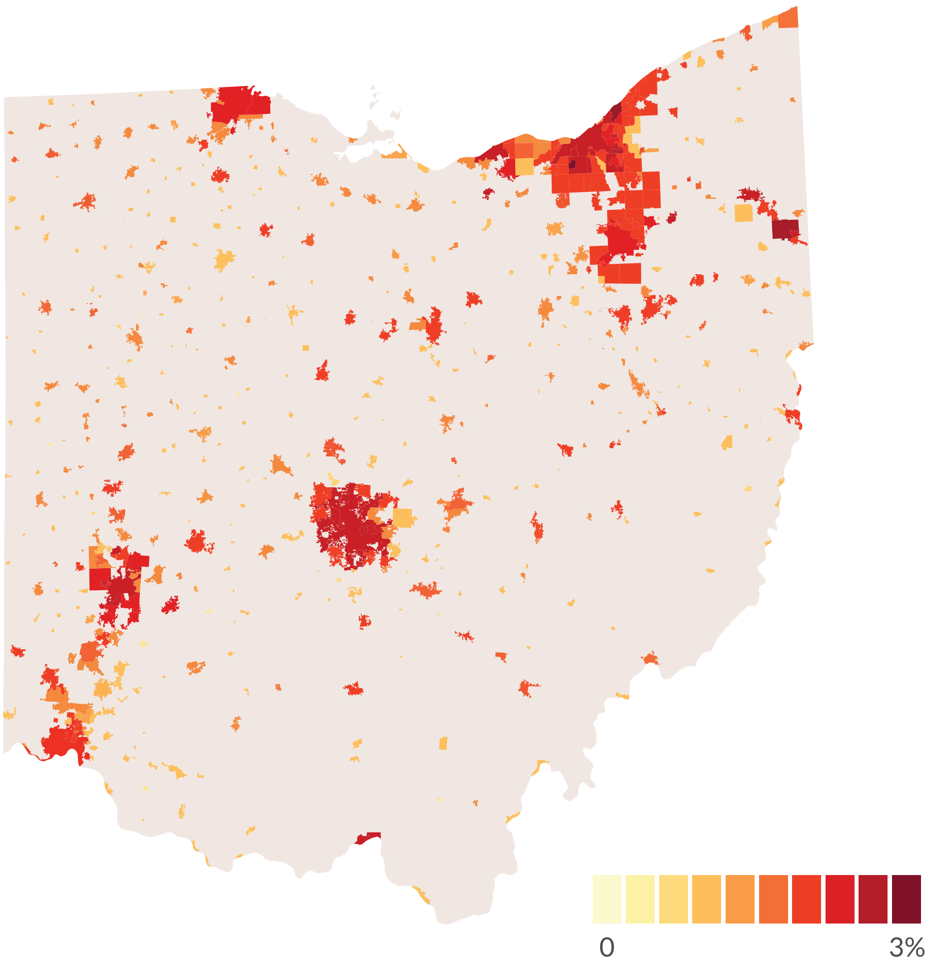
Municipal taxes can quickly increase the total tax rate for both individual income taxpayers and businesses that file through the individual income tax code.

Note: Collections from limited local income taxes in California, Colorado, Kansas, New Jersey, Oregon, and West Virginia are either not reported to the U.S. Census Bureau as local income taxes and/or total to less than 0.01% of state personal income.

Source: Census Bureau, *State and Local Government Finances*; Bureau of Economic Analysis, *State Personal Income*; Tax Foundation calculations.

More than Two-Thirds of Ohio Municipalities Levy Local Income Taxes

Ohio Municipalities that Levy a Municipal Income Tax (2017)



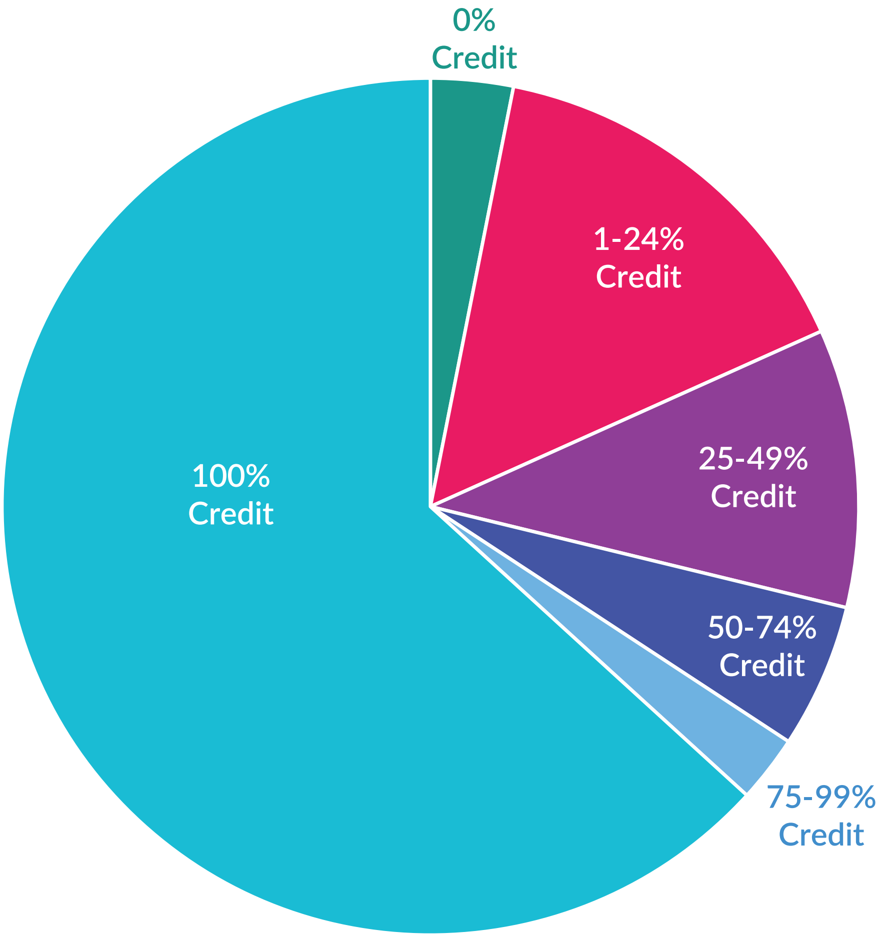
Today, 614 of Ohio's 900-plus municipalities levy a local income tax. The average rate is 1.4 percent, but there is considerable variation. The city of Parma Heights levies the highest rate at 3 percent, while large cities like Cleveland and Columbus levy a 2.5 percent rate. Ohio taxpayers must pay local income taxes where they work and where they live. This map does not include the 190 school districts that also levy local income taxes, with rates ranging from 0.5 to 2 percent, although they are typically not imposed in the same jurisdiction as municipal income taxes.

Individuals are not the only ones paying municipal income taxes. Businesses must also pay the tax on their net profits, if located in a municipality for 20 days or more.

Source: Ohio Department of Taxation.

Not All Municipalities Offer a Credit for Taxes Paid

Maximum Tax Credit Percentage Offered by Municipalities (2017)

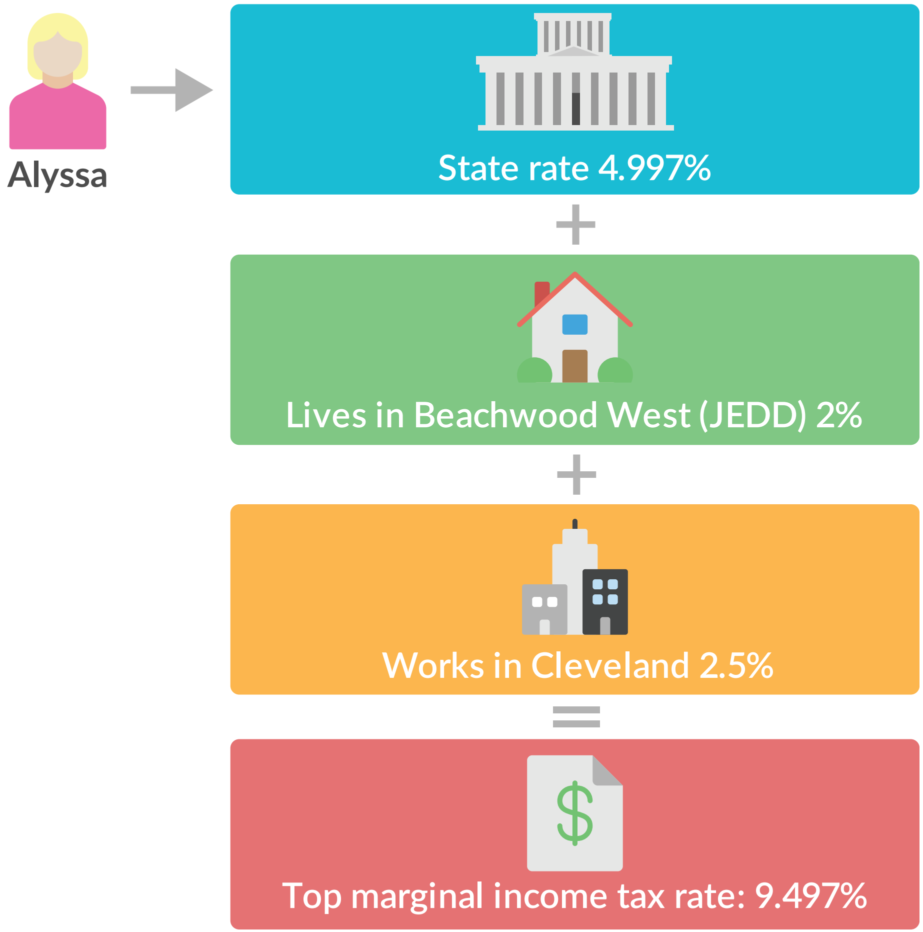


As municipal income taxes are levied on taxpayers both where they work and where they live, most municipalities offer a full or partial credit against taxes paid to the municipality where a taxpayer works. However, the credit system is complicated, involving a calculation among the tax rate in the residential municipality, the tax rate in the work municipality, and a tax credit with a credit limit. Additionally, not all municipalities offer a tax credit. Only 63 percent of Ohio municipalities offer a full credit against taxes paid to the municipality where the taxpayer works. This introduces extreme complexity in the tax code.

Source: Columbus Income Tax Division, Tax Foundation calculations.

The Tax Rate Adds Up in Ohio

Combined State and Municipal Marginal Income Tax Rates for a Hypothetical Taxpayer



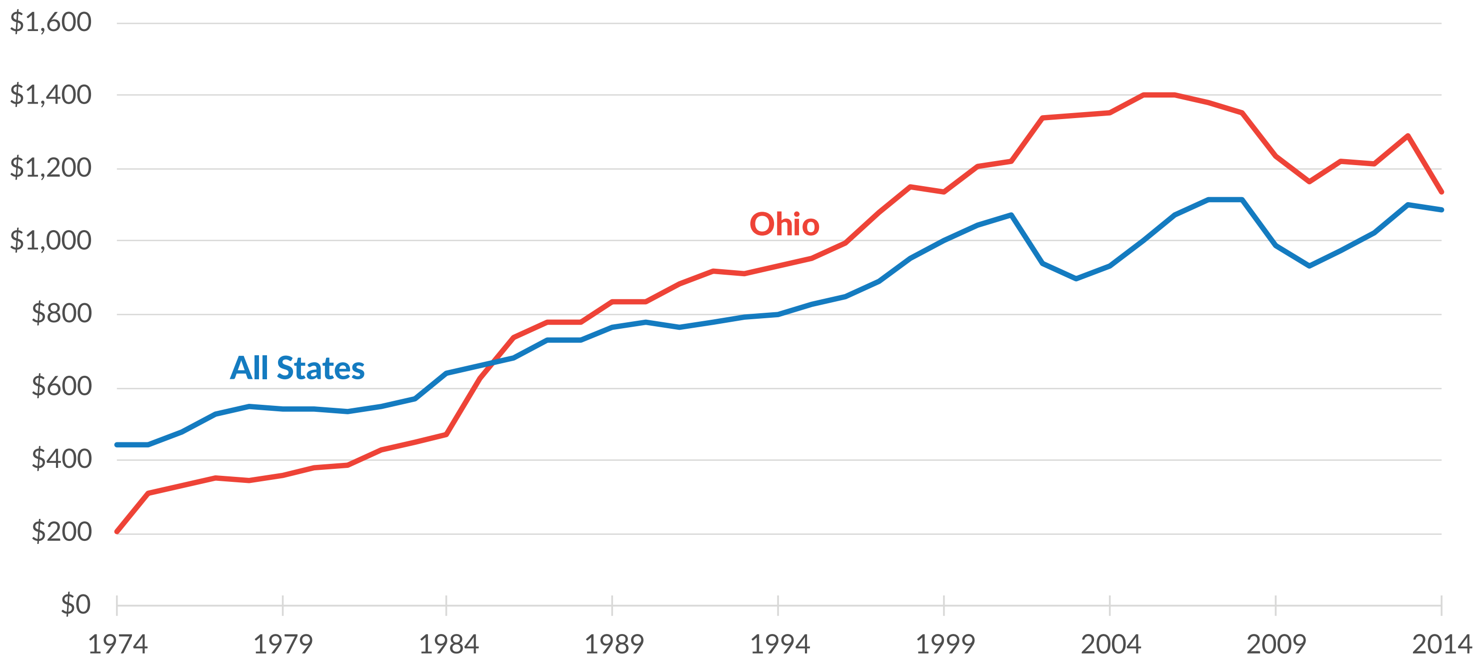
Alyssa lives in Beachwood West (Joint Economic Development District) and works in Cleveland. Beachwood West does not offer a credit against taxes she paid to Cleveland, so she pays 2.5 percent to Cleveland, where she works, and 2 percent to Beachwood West, where she lives, for a total municipal income tax rate of 4.5 percent.

She also falls into the top state income tax bracket, so her marginal state tax rate is 4.997 percent. Together, she faces a top marginal income tax rate of 9.497 percent, comparable to the top marginal rate she would face in notably high tax states, such as New York and New Jersey. Not only does the municipal income tax system create complexity, it also introduces uncompetitive income tax rates.

Source: Columbus Income Tax Division, Tax Foundation calculations.

Ohio's State and Local Income Tax Collections are Higher than the National Average

Total State and Local Income Tax Collections, Ohio and United States (1974-2014)



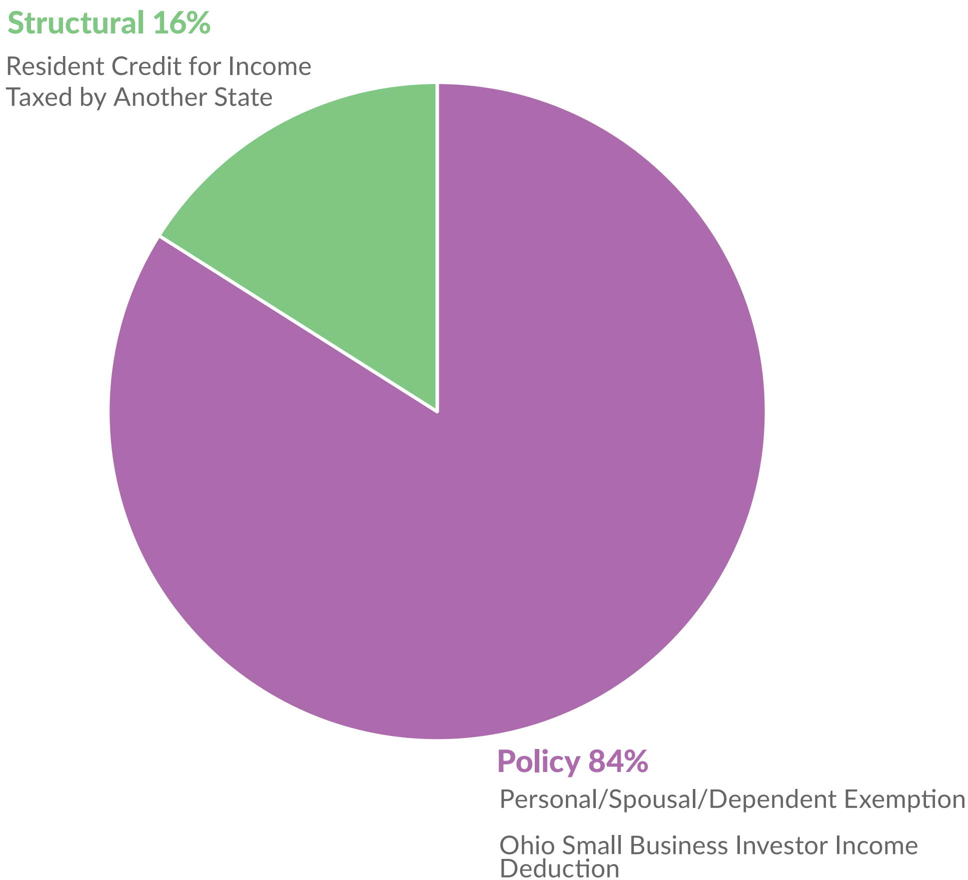
Since 1974, Ohio's inflation-adjusted income tax collections have increased by more than 400 percent, from $210 per capita in 1974 to $1,138 per capita in 2014. From 1974-1985, Ohio's collections were below the national average, but since 1986, Ohio's collections have exceeded the national average. Its state and local collections shot up in the mid-1980s after Ohio's income tax rate peaked at 9.5 percent.

Note: Dollar amounts are inflation-adjusted based on the annual average Consumer Price Index for All Urban Consumers (CPI-U) with a 2016 base year.

Source: Census Bureau, *State and Local Government Finances*; Census Bureau, *American Community Survey*; Bureau of Labor Statistics, *Consumer Price Indexes*.

Ohio Has More than $2 Billion in Individual Income Tax Expenditures

Individual Income Tax Expenditures, Ohio (FY 2017)



A tax expenditure is an activity that has been specifically exempted from taxation via a subtraction, exclusion, deduction, credit, or some other means. In Ohio, individual income tax expenditures will total approximately $2.24 billion in 2017. The two largest individual income tax expenditures, totaling $907 million, are the personal, spousal, and dependent exemption as well as the Ohio Small Business Investor Income deduction. Some tax expenditures, like structural expenditures, belong in the tax code to minimize double taxation, among other things, while others, like policy decisions, unnecessarily narrow the tax base and create winners and losers in the tax code.

Source: Office of Budget and Management, *Tax Expenditure Report* (Fiscal Years 2016-2017).

CHAPTER 4

Business Taxes

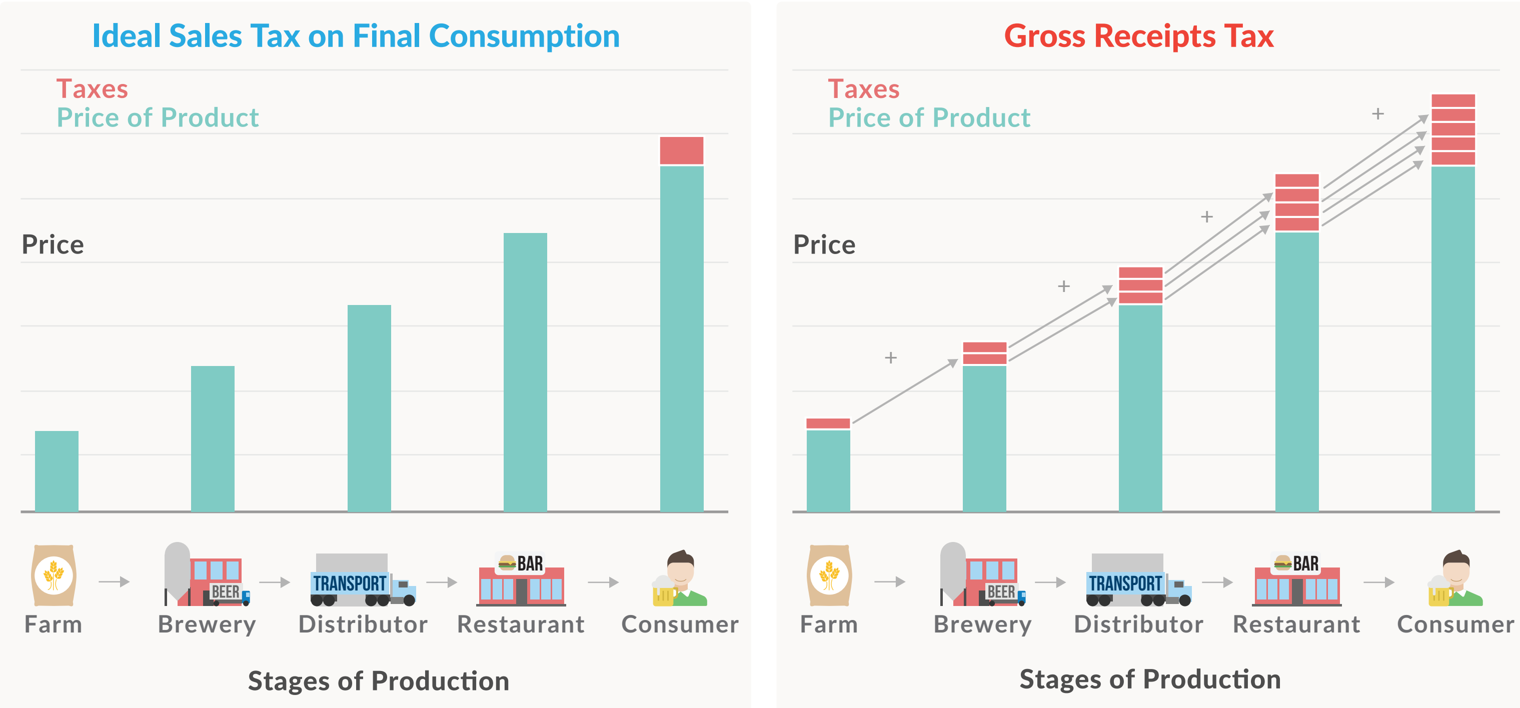
Taxes paid by businesses are an important part of any state's tax code. In Ohio, businesses paid $21.2 billion in total taxes in 2015, primarily on taxes other than the Commercial Activity Tax (CAT), the state's most recognizable type of business tax. Many firms are pass-through entities, such as limited liability companies (LLCs), and S-corporations, which pay individual income taxes and the CAT. Businesses also pay property, sales, and excise taxes, among others.

Ohio's business tax structure has a major flaw. Most states levy a traditional corporate income tax, but Ohio instead imposes the CAT, a gross receipts tax. Only four other states levy a gross receipts tax. By their very design, gross receipts taxes lead to tax pyramiding, a lack of transparency, and economic inefficiency.

Ohio Theatre, Columbus

Gross Receipts Taxes Lead to Tax Pyramiding

Differences between Sales Taxes and Gross Receipts Taxes



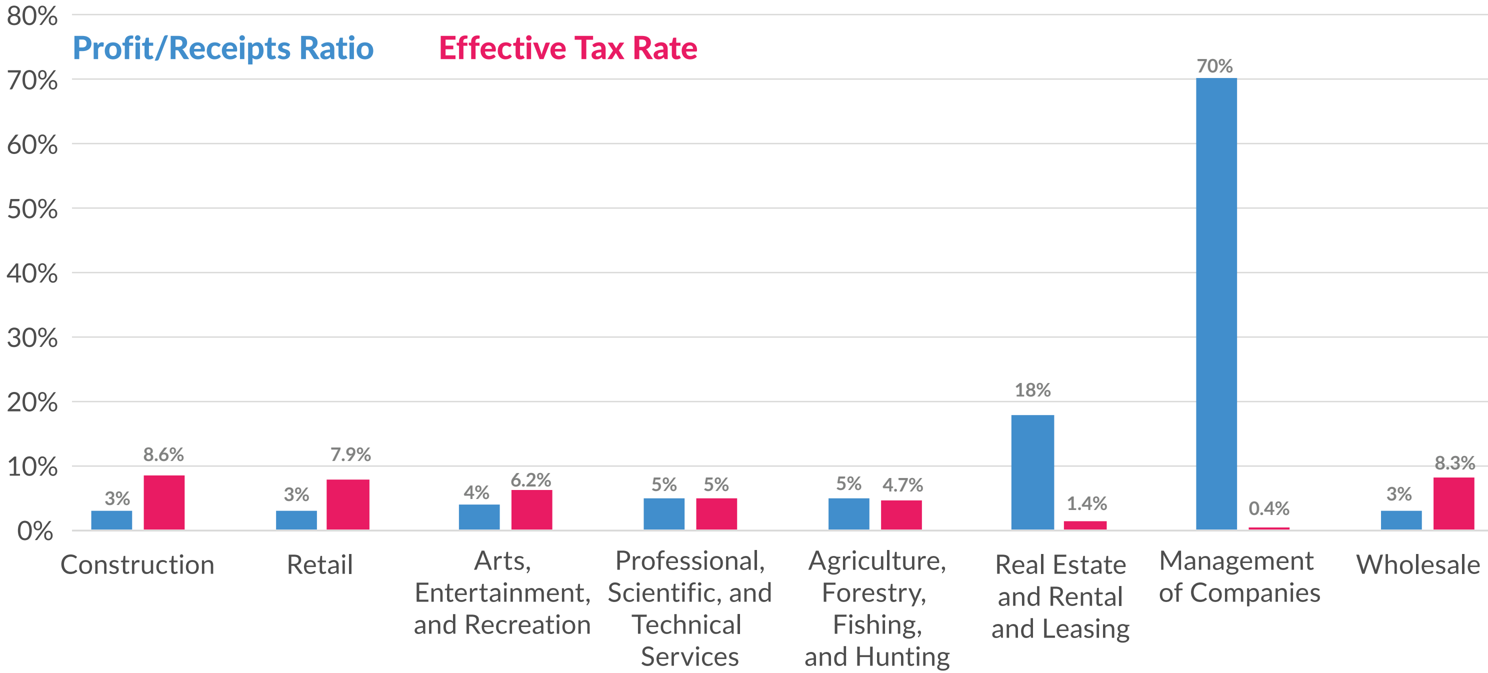
Gross receipts taxes, such as Ohio's CAT, are destructive taxes that lead to tax pyramiding and economic inefficiency. Tax pyramiding occurs when an item is taxed multiple times as it moves through the production process. In short, a tax is assessed on a tax.

Gross receipts taxes also burden industries differently. Under an income tax, firms with no profit pay no tax, protecting new firms and those that are experiencing hardships. A gross receipts tax requires a firm with no profit to continue to pay taxes. Industries with small profit margins are hit particularly hard by gross receipts taxes.

Source: Tax Foundation, "Oregon Measure 97: The Threat to Oregon's Tax Climate."

The Commercial Activity Tax Treats Industries Differently

Effective Tax Rates on Profits by Industry, Businesses with $10 Million in Taxable Receipts (2012)

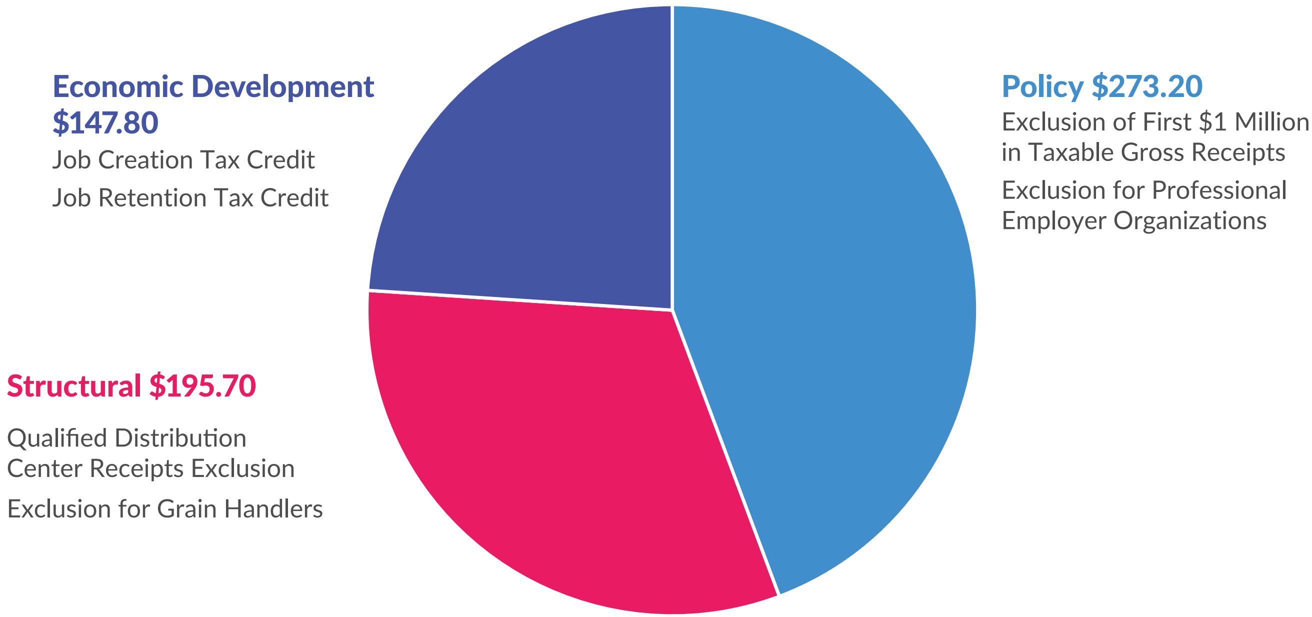


Although the CAT can seem attractive as it's imposed at a low rate of 0.26 percent, the effective tax rate changes considerably by industry, due to the variances in profit margins (as shown on the graph by the profits/receipts ratio). Effective rates range from 0.4 percent on corporate management to 8.6 percent on construction. Industries with high profit margins, like corporate management, have the lowest effective tax rate, while low-margin industries, such as wholesale and construction, have high effective tax rates.

Source: State Tax Research Inst., "Analysis of Proposed Changes to Select Ohio Taxes in Exec. Budget and. HB #64"; Tax Foundation, "Ohio's Commercial Activity Tax: A Reappraisal" (forthcoming).

Exclusion of the First $1 Million in Gross Receipts is the CAT's Largest Expenditure

Commercial Activity Tax Expenditures, by Percent of Total (FY 2017)



CAT expenditures in Ohio total approximately $616.7 million in 2017. The largest expenditure is the exclusion of the first $1 million of taxable gross receipts, totaling $267.8 million or 43 percent of total expenditures. All filers, regardless of their total receipts, can exclude the first $1 million in receipts, lowering firms' overall tax liabilities.

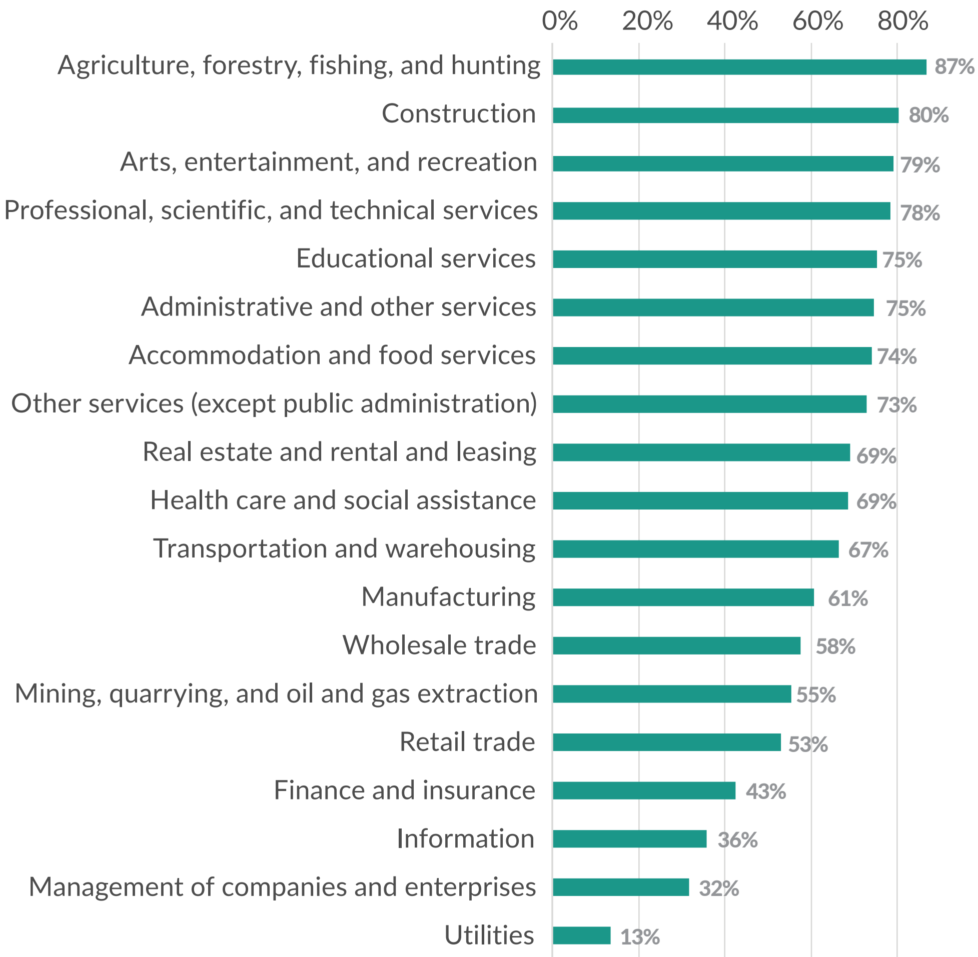
The CAT's other expenditures are also noteworthy. The CAT base includes several expenditures for economic development, an implicit acknowledgment of the tax's harmful effects. For instance, they provide $88 million in job creation tax credits.

Note: The listed expenditures are selected from each category's full list.

Source: Office of Budget and Management, *Tax Expenditure Report* (Fiscal Years 2016-2017).

Businesses Pay Individual Income Taxes Too

Percent of Employer Businesses that are Pass-Through Entities (2015)*



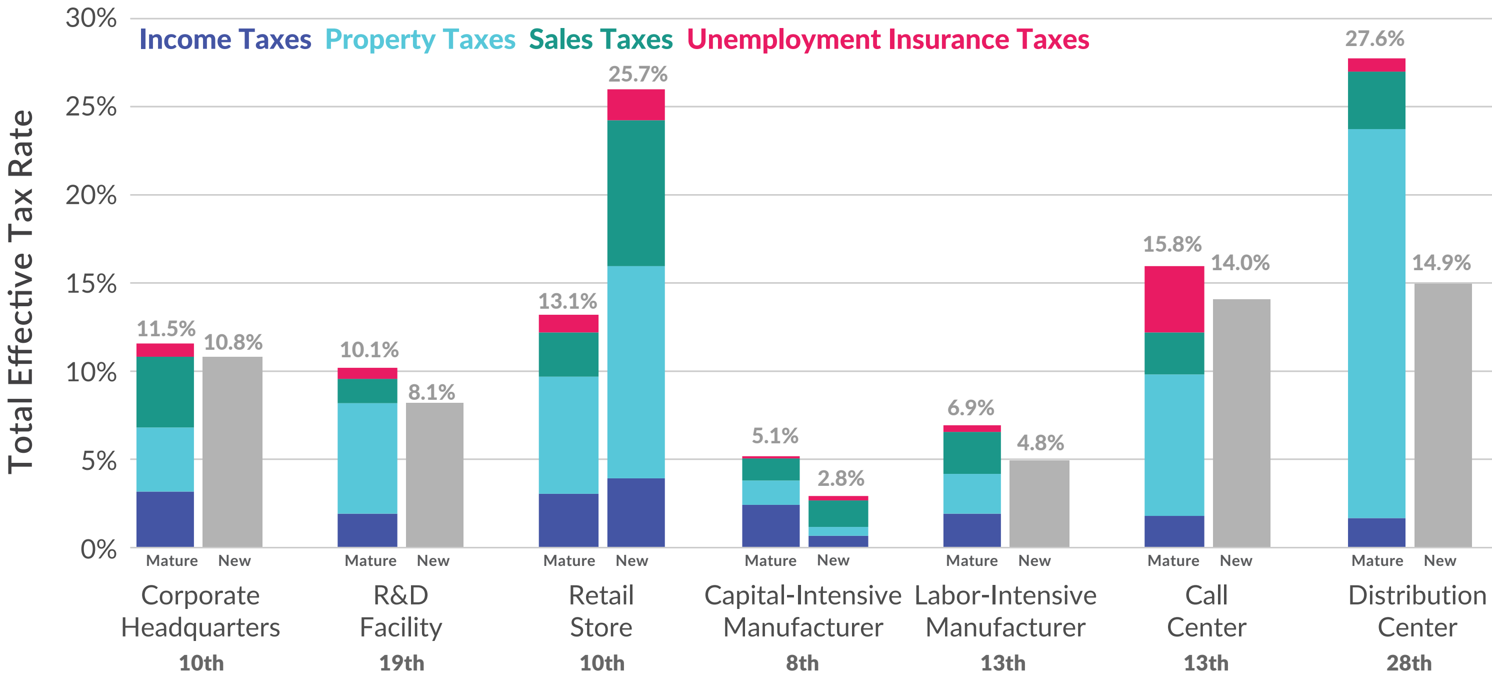
Firms that pay individual income taxes are known as "pass-through" entities because income "passes through" to the owner's individual income tax return. S-corporations, limited liability corporations, and partnerships are all types of pass-throughs. In Ohio, pass-through businesses are subject to the individual income tax and the CAT, although there is a 100 percent deduction for the first $250,000 of business income and the rate on pass-through income is a flat 3 percent, instead of the state's top rate of 4.997 percent. Pass-through businesses make up 65 percent of employer businesses in Ohio.

*Note: This graph includes employer businesses only. It also excludes government, nonprofit, or other noncorporate legal forms of organizations. The pass-through category includes S-corporations, sole proprietorships, and partnerships.

Source: Census Bureau, *County Business Patterns*.

Effective Tax Rates Vary Widely in Ohio

Total Effective Tax Rates for Select Ohio Business Types, New and Mature Firms (2015)



The Tax Foundation's *Location Matters* study calculates the tax bills in every state for 14 hypothetical firms in seven industries (one new firm and one mature). Under Ohio's tax code, new and mature firms tend to be treated differently. This difference is most pronounced among distribution centers, where the effective tax rate is 12.7 percentage points higher for mature firms than for new firms. Ohio provides generous property tax abatements to new distribution centers. These wide divergences are nonneutral, resulting in distorted investment decisions.

Note: Total effective tax rate only includes state and local tax liability, not federal tax liability. Gray bars indicate that tax type breakdowns are unavailable due to negative effective rates for one or more tax types. The rank listed under each category represents Ohio's rank nationally for mature firms.

Source: Tax Foundation, *Location Matters: A Comparative Analysis of State Tax Costs on Business* (2015).

CHAPTER 5

Sales Taxes

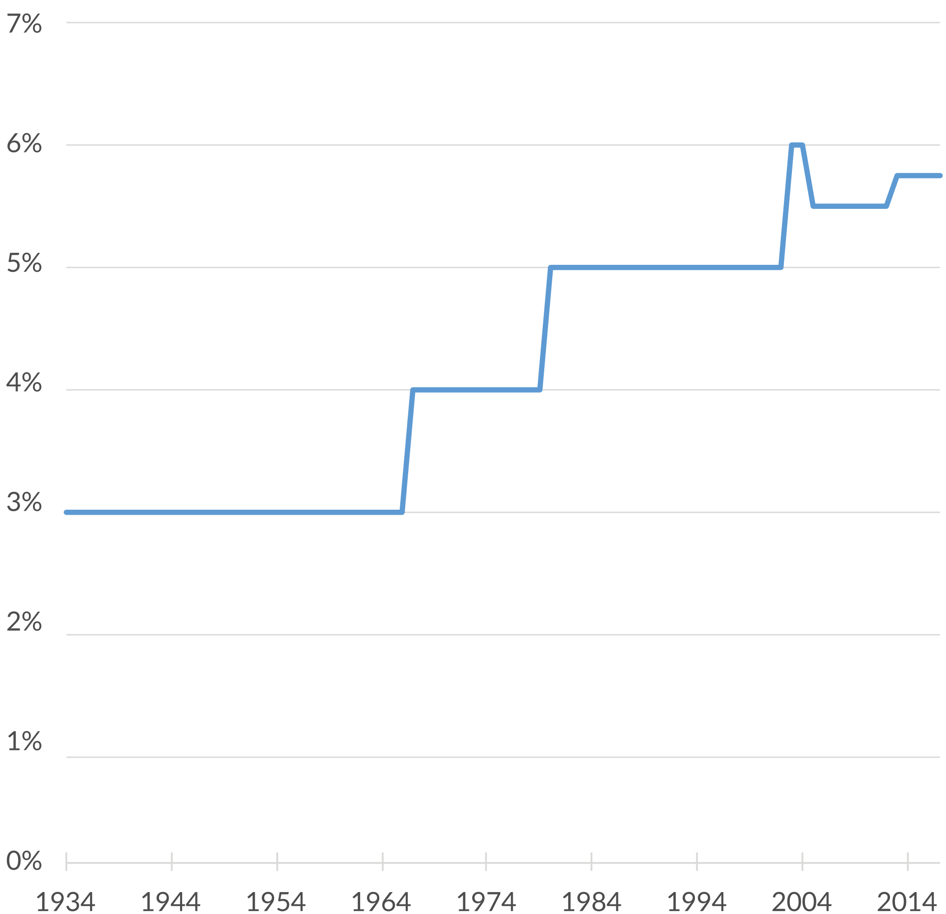
Ohio's sales tax consists of two parts. The first is the state rate of 5.75 percent, which is the lowest of all its peer states. The second is the local rate, which includes rates charged by both counties and designated transit authorities in the state. Ohio's average combined state and local rate is the 19th highest in the country at 7.14 percent.

The sales tax base in Ohio is shrinking: states tend to levy sales taxes on goods, but the service sector now makes up a much larger share of the economy than when the sales tax was adopted in 1934. This is not a problem unique to Ohio; however, a shrinking tax base leads to an increased tax rate if policymakers want to generate the same amount of revenue.

Conneaut Creek, Ashtabula County

Ohio's Sales Tax Rate Has Risen over Time

Ohio's State General Sales Tax Rate (1934-2017)



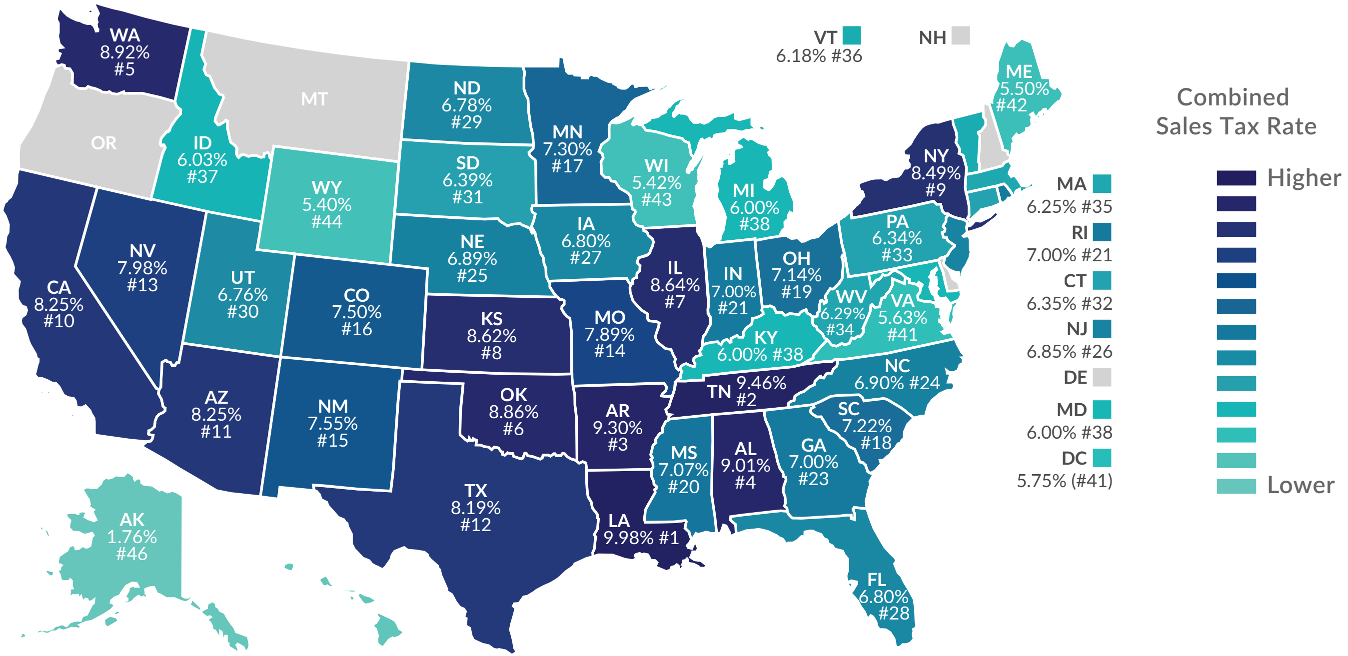
Since its creation in 1934, Ohio's state sales tax rate has nearly doubled to 5.75 percent today. Except for one rate decrease in 2005, the sales tax rate has increased over time, with four rate hikes. The current state-level rate of 5.75 percent is the 27th highest in the country.

Note: These rates do not include local sales tax rates.

Source: Ohio Department of Taxation, "Sales & Use Tax: History of Major Changes."

Ohio's Combined State and Local Sales Tax Rate is Higher than Many Peer States

Combined State & Average Local Sales Tax Rates, (2017)



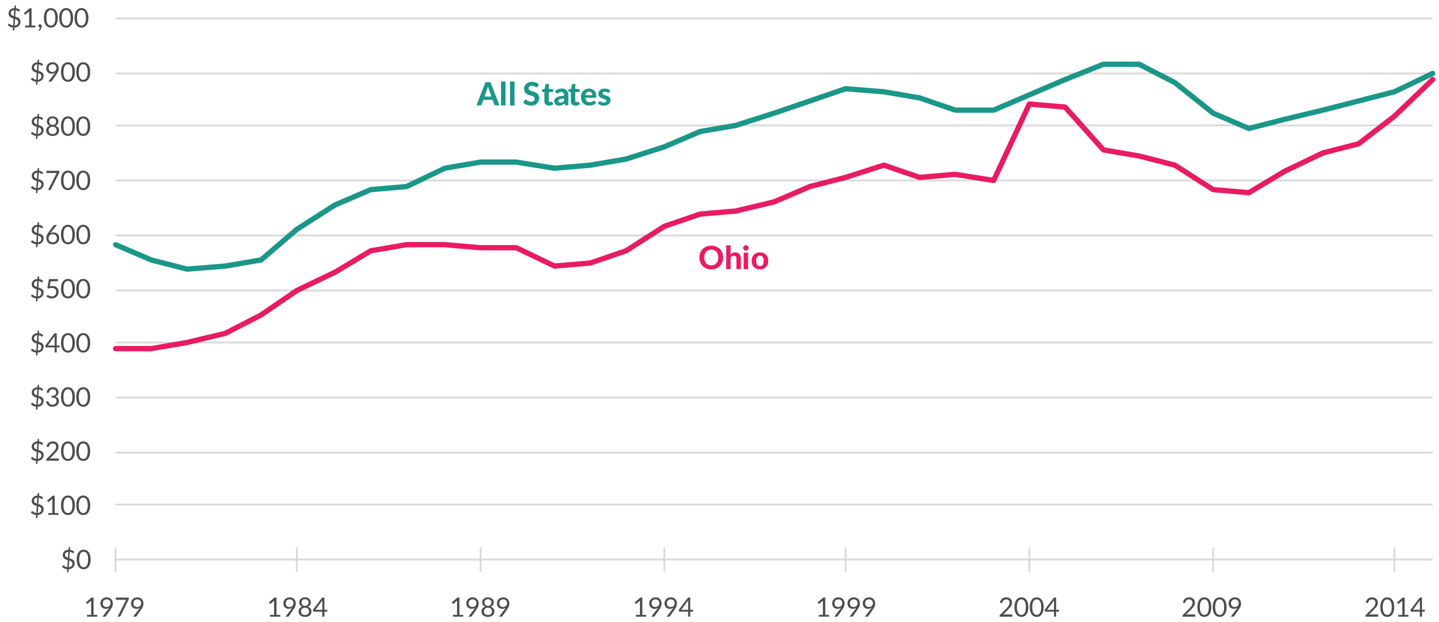
Ohio's combined state-local sales tax rate is higher than many other states, including most of its peer states. The combined rate of 7.14 percent ranks 19th highest in the nation. It is lower than Illinois (8.64 percent) and Texas (8.19 percent), but higher than the rest of its peer states: Indiana (7 percent), Michigan (6 percent), and Pennsylvania (6.34 percent). The combined rate is also higher than all of its immediate neighbors (including Kentucky and West Virginia).

Note: City, county, and municipal rates vary. These rates are weighted by population to compute an average local tax rate.

Source: Tax Foundation, "State and Local Sales Tax Rates in 2017."

Ohio Sales Tax Collections per Capita Have Nearly Reached the National Average

State Sales Tax Collections per Capita, Ohio and U.S. (1979-2015)



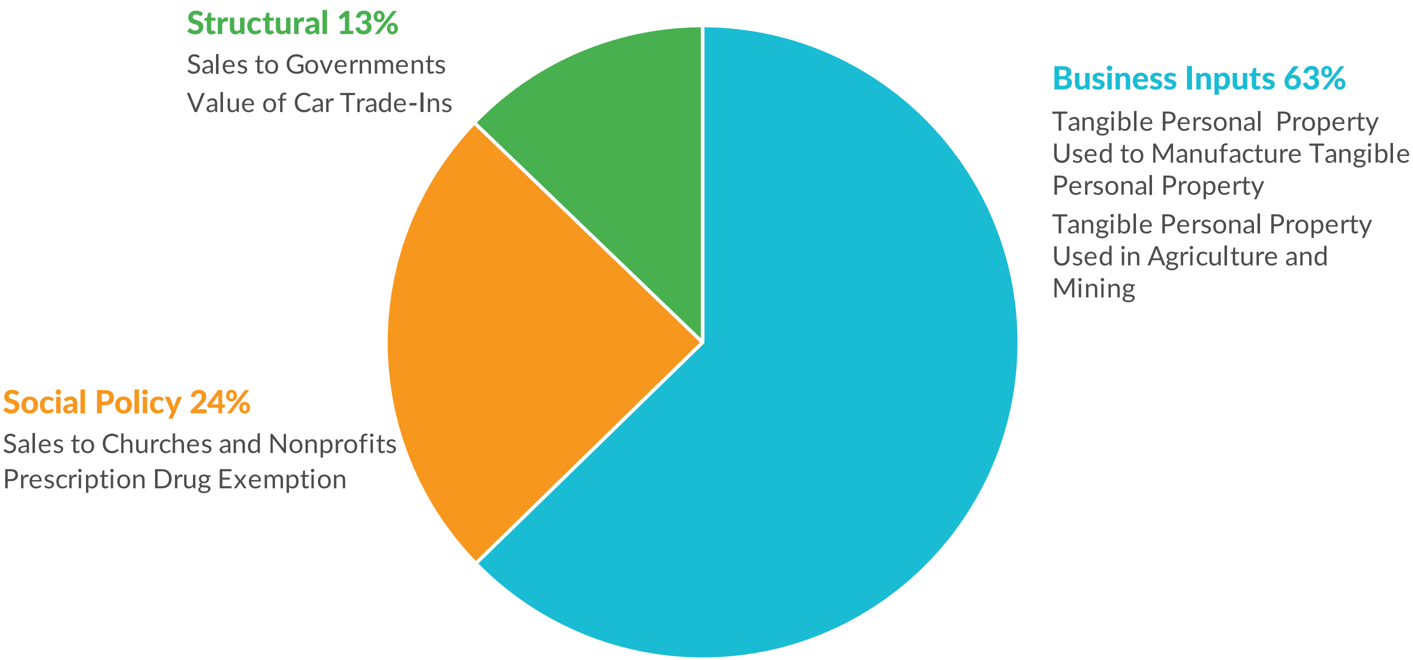
Sales tax collections per capita in Ohio have grown since the late 1970s. Since 1979, sales tax collections per capita have grown 128 percent, far outpacing the 54 percent growth of sales tax collections in the U.S. as a whole. Ohio collections per capita of $887 now nearly match the national average of $899. Collections have increased quickly in the last seventeen years, growing by 22 percent since 2000.

Note: Dollar amounts are inflation-adjusted based on the annual average Consumer Price Index for All Urban Consumers (CPI-U) with a 2016 base year.

Source: Census Bureau, State and Local Government Finances; Census Bureau, *American Community Survey*; Bureau of Labor Statistics, *Consumer Price Indexes*; Ohio Office of Budget and Management, *Comprehensive Annual Financial Reports*.

Not All Sales Tax Expenditures Are Created Equal

Ohio's Sales and Use Tax Expenditures, by Type (FY 2017)



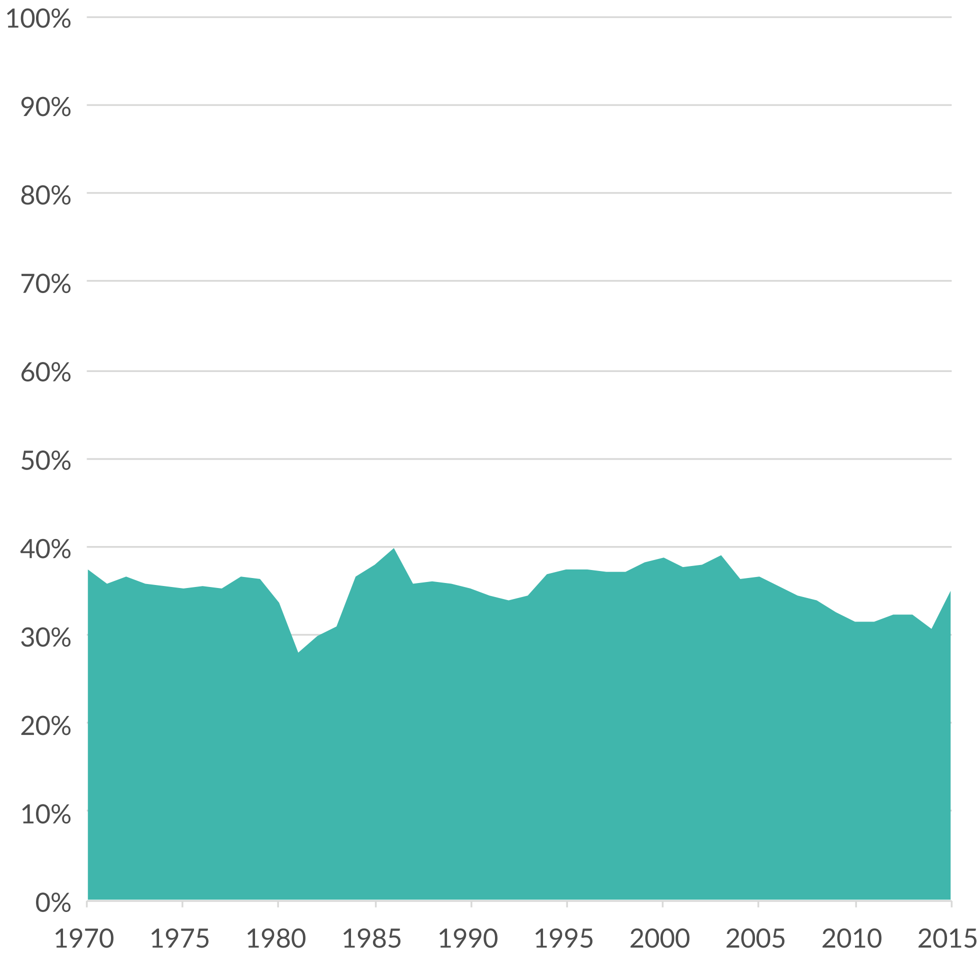
When states quantify tax expenditures, they often mistakenly lump structural provisions with social policy carveouts, when the two should be distinct. Structural provisions are tools used to ensure the sales tax code is correctly applied – such as exempting sales to governments and business input purchases. Approximately 76 percent of sales tax expenditures fall into this category. Social policy carveouts are specific policy decisions enacted for political purposes, such as the exclusion of prescription drugs. These total 24 percent of sales tax expenditures in Ohio.

Note: The listed expenditures are selected from each category's full list. The Office of Budget and Management does not include expenditures enshrined in the Ohio Constitution, such as food sold off-premises.

Source: Office of Budget and Management, *Tax Expenditure Report* (Fiscal Years 2016-2017).

The Sales Tax Applies to Less than Half of Ohio's Economy

Ohio Sales Tax Breadth (1970-2015)



An ideal sales tax is one that is levied on all final consumer purchases. By taxing a large number of transactions, the rate can be kept low and still raise sufficient revenue.

When the first U.S. sales tax was created in Mississippi in 1930, it was levied on tangible goods, which was a large part of the overall economy at the time. Most other states followed suit with this model, but the national economy has become more service-based since then. Now, Ohio's sales tax only applies to 35 percent of its economy. As a result, the sales tax is not nearly as productive as it could be, leading to a higher rate than necessary.

By failing to tax consumer services, the sales tax inherently favors the service sector over the goods sector.

Note: Sales tax breadth is defined as the ratio of the implicit sales tax base to state personal income.

Source: Professor John Mikesell (Indiana University).

CHAPTER 6

Other Taxes

The previous chapters have covered individual income, business, and sales taxes, but Ohio and its localities assess other taxes too.

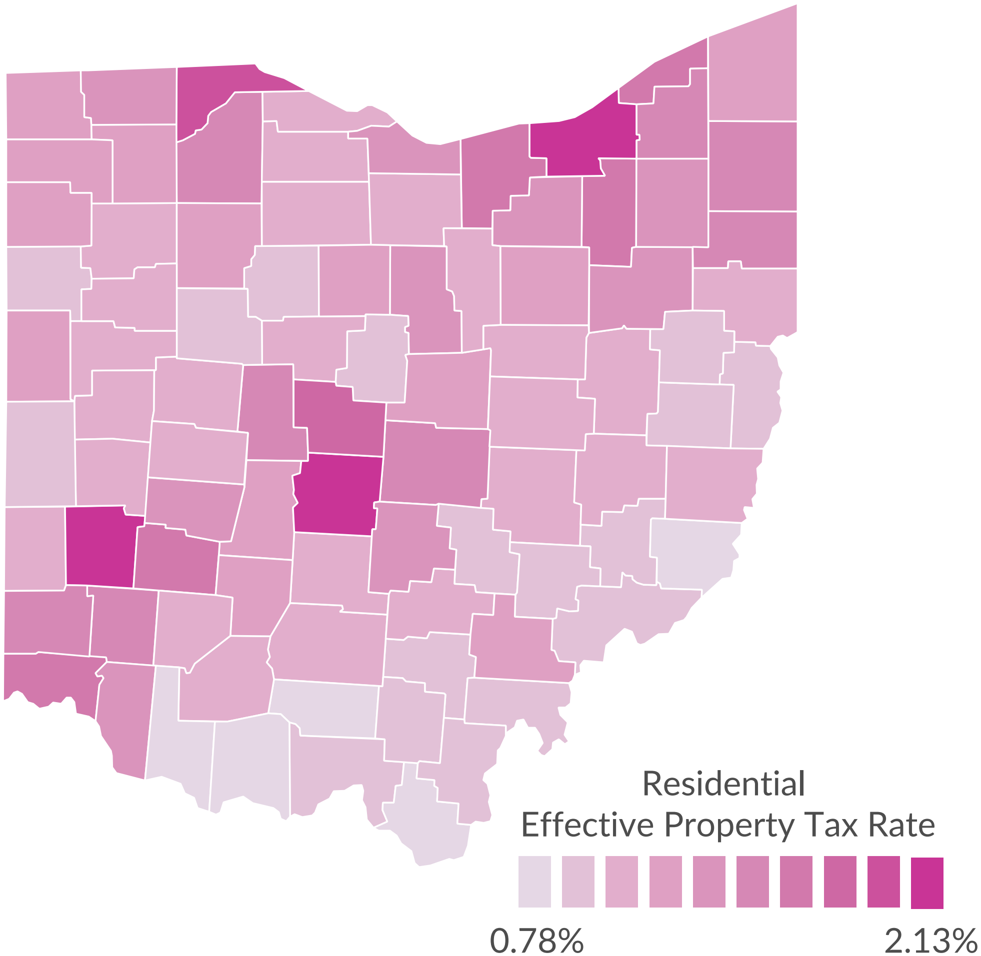
The first remaining category is property taxes. Ohio's effective property tax rate is 1.57 percent, or ninth highest in the country. However, when we discuss property taxes, we're often describing many layers of taxation at the local level – taxes levied by towns, cities, counties, school districts, and even specific-purpose districts, such as those dedicated to hospitals. Because of this, effective property tax rates vary widely by county but also exhibit much intra-county variation as well.

The second category is excise taxes, which are taxes on specific products, such as cell phone service, alcohol, cigarettes, gasoline, and natural gas extraction. These taxes differ from sales taxes, which broadly apply to all final transactions. Ohio's state and local excise tax collections per capita are fairly average, ranking 27th in the country at $484 per person.

Ohio Statehouse

Residential Effective Property Tax Rates Vary Widely Among Counties

Effective Property Tax Rates (5-Year Estimates, 2010-2014)



On average, the residential effective property tax rate in Ohio is the ninth highest in the country at 1.57 percent, although county-specific rates vary significantly. The highest effective property tax rate occurred in Cuyahoga County at 2.13 percent, followed closely by 2.04 percent in Franklin County. The lowest rate was in Monroe County at 0.78 percent.

Within a county, individual homeowners' effective rates may differ from these county averages, largely due to the impact of special taxing districts and state property tax refunds. It's important to note that an effective property tax rate is not the same as the millage rate (that is, the statutory property tax rate levied by a local government).

Source: Census Bureau, *American Community Survey*.

Ohio's Excise Taxes on Cigarettes and Alcohol

State Excise Tax Rates on Beer, Wine, Spirits, and Cigarettes (as of January 1, 2017)

Beer Tax
$0.18/gallon

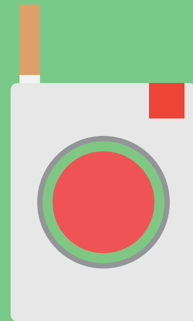
32nd highest

Wine Tax
$0.32/gallon

39th highest

Spirits Tax
$9.90/gallon

11th highest



Cigarette Tax
$1.60/pack

23rd highest

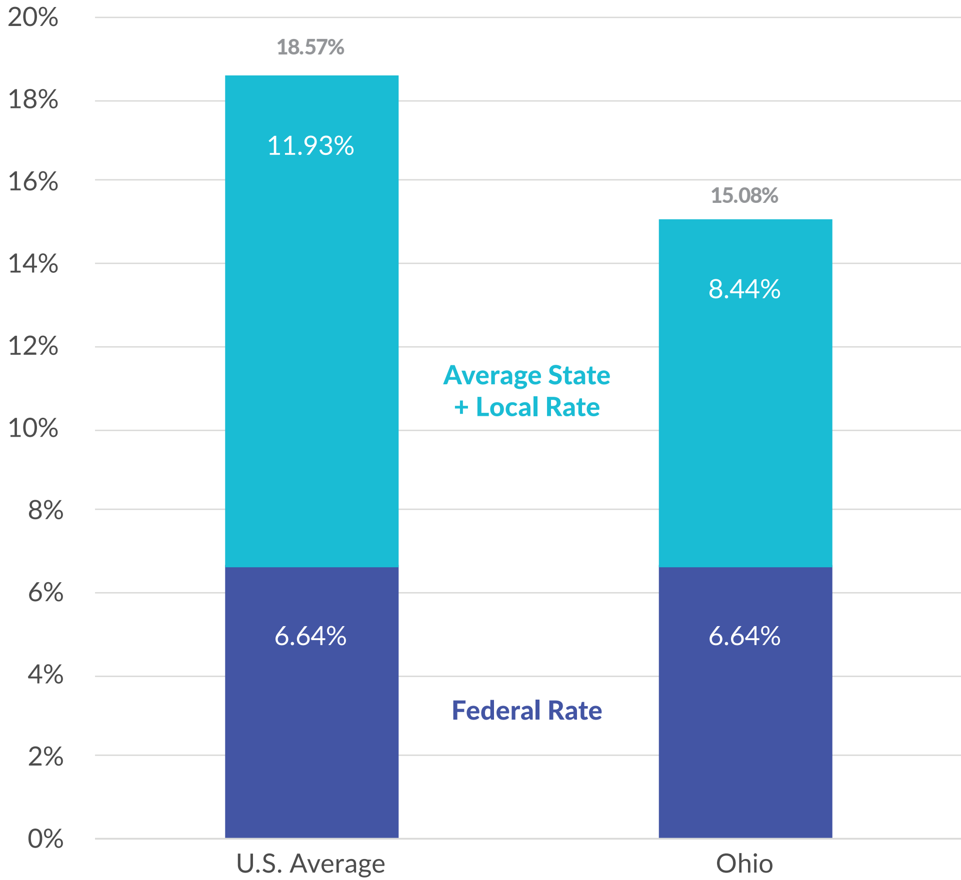
Taxes on cigarettes and different types of alcohol are often referred to as "sin taxes." Although excise taxes on the sales of these specific types of goods are sometimes promoted as a means of offsetting government costs, such as health issues created by cigarette use, sin taxes should not be used as a means to raise general revenue. The revenues are not sustainable in the long run and these taxes tend to be regressive. Most excise taxes on alcohol and cigarettes in Ohio are around the national average, ranging from 11th to 39th highest in the country.

Note: The cigarette tax assumes 20 cigarettes in a pack.

Source: Tax Foundation, *Facts & Figures 2017: How Does Your State Compare?*

Ohio's Wireless Taxes are Lower than the National Average

Charges on Wireless Service, Ohio and U.S. Average (as of July 1, 2016)



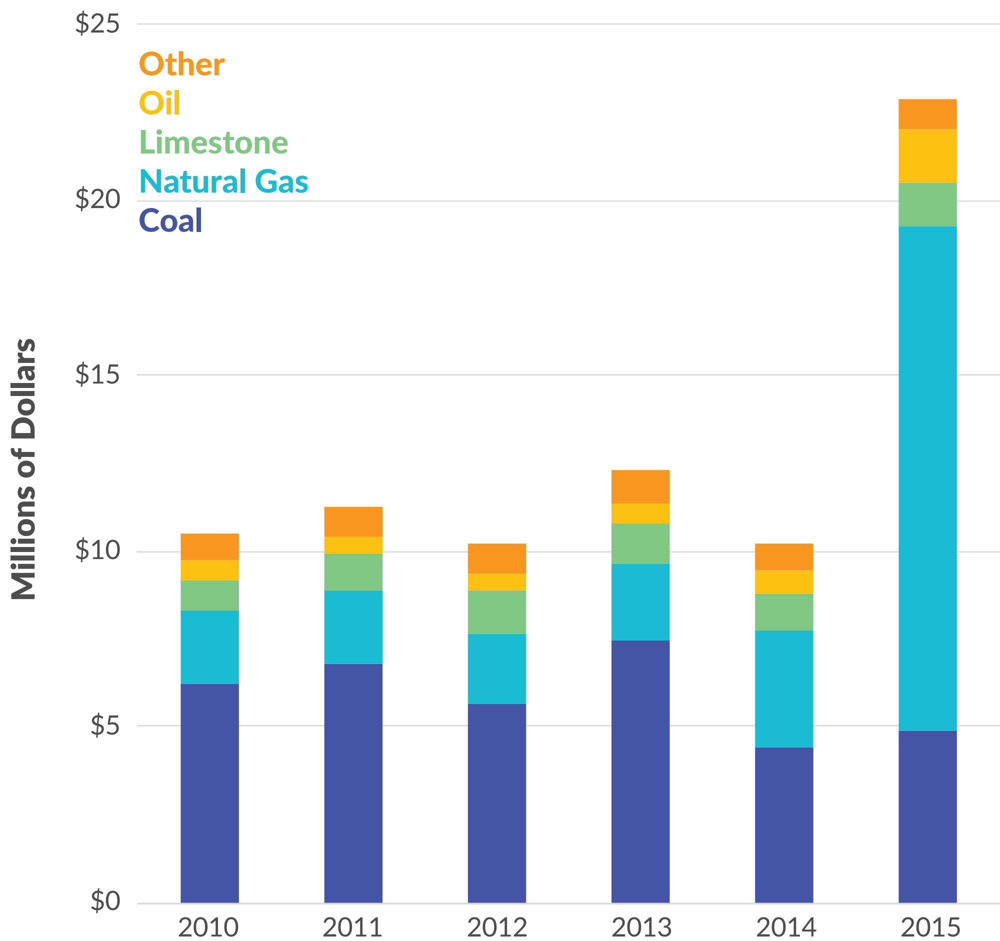
Wireless consumers continue to face excessive tax burdens when compared to the tax burden on other goods and services purchased in the marketplace. The average rates of taxes and fees on wireless telephone services are more than two times higher than the average sales tax rates that apply to most other taxable goods and services.

Yet when federal, state, and local taxes and fees on wireless service are considered, Ohio taxpayers face an average combined rate of 15.08 percent, lower than the national average of 18.57 percent.

Source: Tax Foundation, "Wireless Tax Burdens Rise for the Second Straight Year in 2016."

Severance Tax Revenues Doubled in 2015

Total Severance Tax Collections, Ohio (2010-2015)



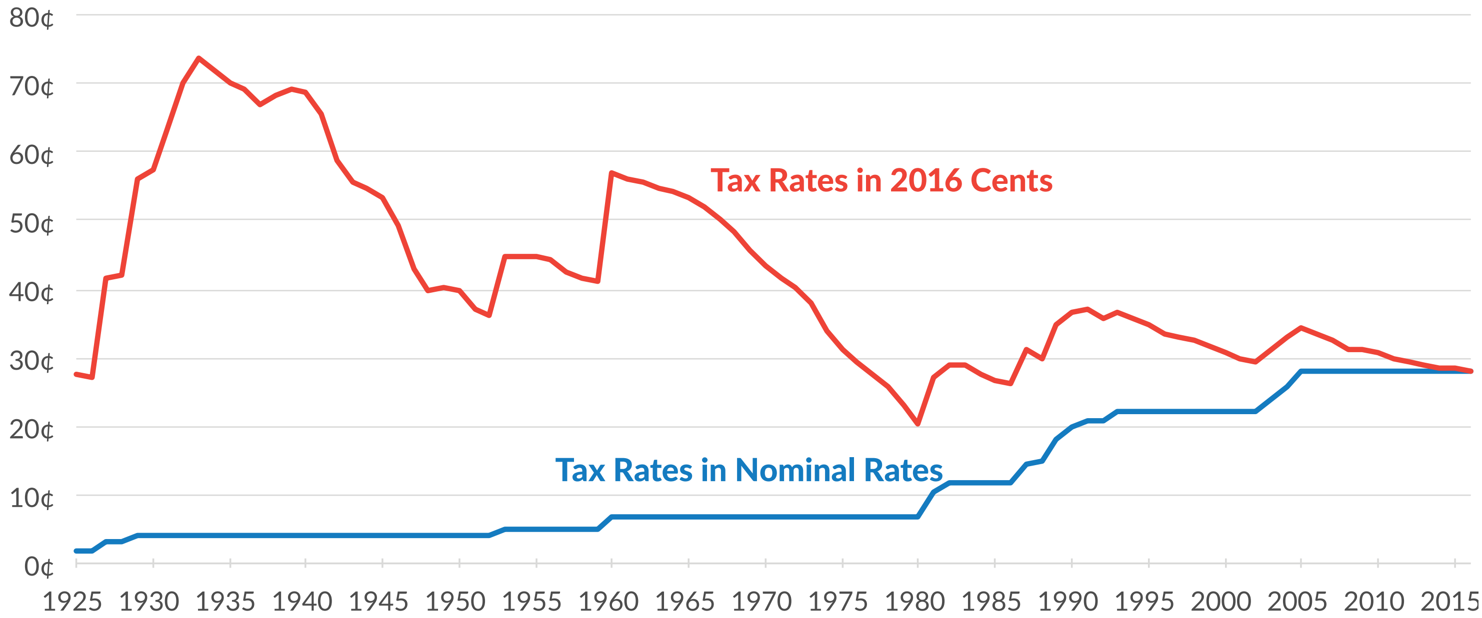
Resource-rich states, like Ohio, find ways to tax resource extraction. There are several approaches to severance taxes – for example, West Virginia taxes the value of natural gas produced, and Pennsylvania levies an impact fee. Ohio assesses a flat charge on the amount produced. It taxes natural gas at 2.5 cents per 1,000 cubic feet, oil at 10 cents per barrel, coal at a 10 cents per ton base rate plus two additional levies totaling between 13.2 and 16.2 cents, and limestone at 2 cents per ton. Severance tax revenue spiked in 2015, mostly due to increased production of natural gas.

Note: The other category includes gravel, sand, dolomite, salt, clay, sandstone, shale, gypsum, and quartzite.

Source: Ohio Office of Budget and Management Financial Reports.

The Value of Ohio's Gas Tax has Fallen over Time

Ohio Gasoline Tax, Nominal and Real (1925-2016)



Ohio's gas tax was first passed in 1925 at 2 cents per gallon and has increased periodically, reaching 28 cents in 2005. However, the real value differs from the nominal value. The real value of the gas tax has fallen dramatically since the 1930s. This can harm the state's capacity for road investments, as the gas tax is one of the best funding mechanisms for road construction and maintenance.

Note: Amounts are inflation-adjusted based on the annual average Consumer Price Index for All Urban Consumers (CPI-U) with a 2016 base year.

Source: Ohio Department of Revenue.

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Taxes are complicated. Each state's tax code is a multifaceted system with many moving parts, and Ohio is no exception. This chart book provides readers with a broad perspective on the impact of Ohio's overall economy and tax system. It also provides detailed illustrations to each of Ohio's major taxes–individual income taxes, business taxes, sales and excise taxes, and property taxes–to help make the complicated task of understanding the state's tax code a bit easier.

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