

PolicyGoal:

An Efficient, Competitive Ohio Tax System

For Ohio to be successful in a global economy, the state's tax system must encourage investment and growth. It must be competitive nationally and internationally. A globally competitive tax system is characterized by (a) certainty, (b) equity, (c) simplicity and (d) transparency. Economy of collections and convenience of payment also are important attributes.

Generally, manufacturers support efforts to broaden the tax base, which enables lower rates. To preserve the integrity of the broad tax base and ensure fairness, credits and exemptions should be reduced and discouraged. Where needed, government incentives are best structured as grants rather than as tax credits. And, in general, earmarking and dedicating tax revenues should be discouraged.

Government should instead create incentives for capital investment in Ohio. Productivity gains, which keep Ohio manufacturers competitive, are driven by capital investment in technology and equipment. Such investment is necessary for Ohio manufacturers to remain competitive and tax policies which encourage investment should be a priority.

Good tax policy also generates necessary revenues to support the essential functions of government. Good budgeting and spending restraint at all levels of government are vital to a competitive tax environment.

Major tax reforms approved by the Ohio General Assembly in 2005 and additional reforms in 2011 through 2015 led to significant improvements to a tax system that was for many years widely regarded as uncompetitive and obsolete. These reforms reduced overall tax rates, eliminated tax on investment, and broadened the tax base, all of which provide more stable and predictable revenues and simplify compliance.

The elimination of the tangible personal property tax, the corporate franchise tax, and the estate tax has strengthened the competitiveness of Ohio's tax system. So has the reduction of the personal income tax rate, as well as the creation of a broad-based, low-rate commercial activity tax.

Going forward, these tax policy gains must be protected. Tax bases should be protected against erosion caused by granting credits and carve-outs to narrow special interests, in order to protect the productivity of the taxes. Where possible and reasonable, tax bases should be expanded and tax rates reduced.

Finally, the state's tax system would also benefit from a reduction in the number and type of taxing jurisdictions. Because of its complex layering of local and state taxes, Ohio's tax system is at a competitive disadvantage compared to other states.

ABOUT OHIO'S UNEMPLOYMENT INSURANCE TRUST FUND

To avoid costly borrowing from federal funds, Ohio's Unemployment Insurance Trust Fund must be made solvent before the next recession. The state must align benefits with contributions to build an adequate unemployment trust fund balance. The best solvency plan is one that also includes a focus on job creation because increased employment not only increases fund contributions but also reduces benefit payouts. For that reason, unemployment compensation tax rates also should be in line with surrounding states and states with which Ohio competes to attract and retain business.