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 certainty, equity, simplicity, and 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. Moreover, earmarking and dedicating tax revenues should be discouraged as well.

Government should instead build on initiatives such as the recently revised Jobs Retention Tax Credit and continue creating incentives for capital investment in Ohio. Productivity gains, which keep Ohio manufacturers competitive, are driven by capital investments in technology and equipment. Therefore, tax policies that encourage investment should be a priority.

As Ohio's number one industry and wealth producing sector of the economy, Ohio's tax structure should be maintained to leverage manufacturing. The state should continue to improve its manufacturing climate by removing the sales tax from temporary labor and manufacturing janitorial supplies and services.

Good tax policy also generates necessary revenue to support the essential functions of government. Good budgeting and spending restraint at all levels of government are vital to a competitive tax environment, especially in challenging times.

Major tax reforms approved by the Ohio General Assembly in 2005 – and additional reforms in 2011 through 2015 – significantly improved 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 (CAT).

Going forward, these tax policy improvements must be protected. The tax bases should be protected against erosion caused by new credits and carve-outs to narrow special interests. Where possible and reasonable, tax bases should be expanded and tax rates reduced. Ohio has seen an increase in potential CAT exemptions and carveouts. While most of these have not come to fruition, leaders must ignore the siren song and maintain the broad base.

Finally, reducing the number and type of taxing jurisdictions would be beneficial. Because of its complex layering of local and state taxes, Ohio's tax system is at a competitive disadvantage.

ABOUT OHIO'S UNEMPLOYMENT INSURANCE TRUST FUND

The COVID-19 pandemic thrusted the Ohio Unemployment Insurance Trust Fund into default. Coming out of the pandemic, state leaders must work toward aligning benefits with contributions to build a sustainable unemployment trust fund balance. The best solvency plan is one that includes a focus on job creation – because increased employment not only increases fund contributions, but also reduces benefit payouts.

To encourage job growth, unemployment compensation tax rates should be in line with surrounding states, as well as states Ohio competes with to attract and retain new business. Ohio should pause any substantive employer payment increases until sufficient economic recovery has occurred.