

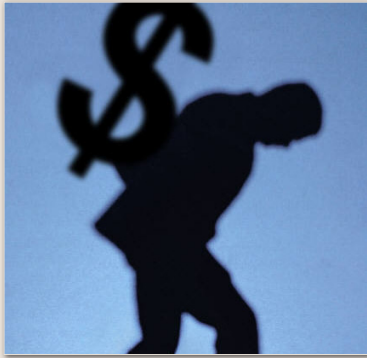
An Analysis of Ohio's Income Tax Changes from 2013 to 2014

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According to IRS and Census data, Ohio lost about \$23 billion in annual adjusted gross income (AGI) from 1992 to 2014 due to residents moving to other states.¹ Prior to 2013, Ohio had state income tax rates ranging from 0.587 percent (on incomes of more than \$5,100) to 5.925 percent (beginning at \$104,200) with a \$1,650 personal exemption per individual.



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In July 2013, however, Gov. John Kasich (R) and the General Assembly passed a significant, \$2.7 billion tax cut package that included a reduction in state income tax rates, phased in over three years. From 2013 to 2014 tax rates were reduced 9 percent, thus lowering the bottom rate to 0.534 percent and the top rate to 5.392 percent.² With these tax cuts, how did Ohio compare to neighboring states in 2014?

About the NCPA's State Tax Calculator. The NCPA's State Tax Calculator (www.whynotmove.org) is a tool to help people determine the change in their tax burden if they move from one state to another. The State Tax Calculator is not a typical cost-of-living calculator. The software is based on a proprietary financial planning model developed by economist and Boston University Professor Laurence Kotlikoff.

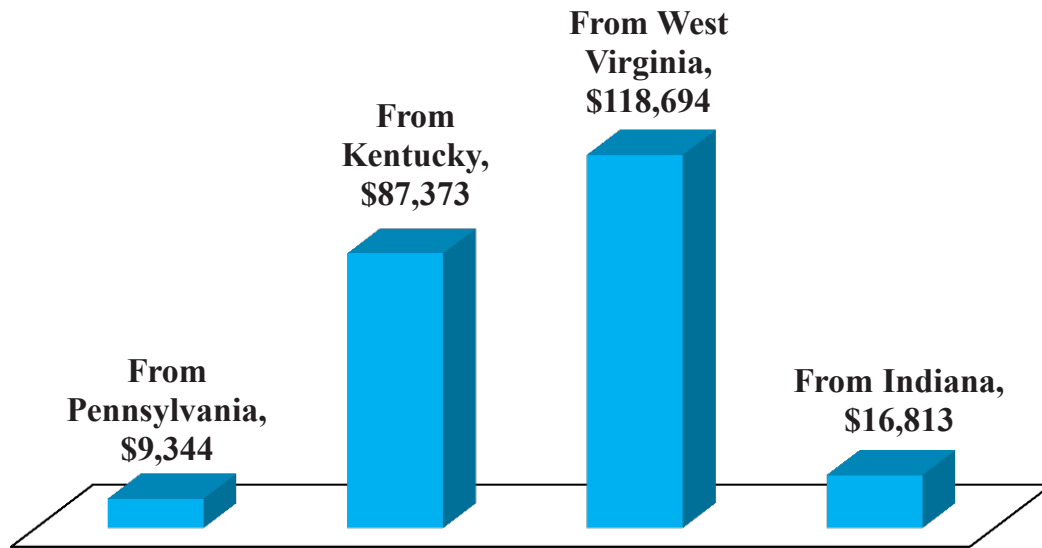
The State Tax Calculator produces results based on the economic theory that households manage their finances so as to smooth out their discretionary spending over their lifetimes. To make the calculator easy to use, there are also built-in assumptions about wages and investments:

- Wage/business income is the same in both states.
- Earnings during the working years will increase each year at the assumed rate of inflation of 3 percent.
- Any money invested in retirement accounts or regular savings accounts will grow at 4 percent per year.

Additionally, annual and lifetime results assume the individual or couple live to be 100 years old, and that assets are spent down, leaving nothing to pass on to heirs.

The State Tax Calculator provides two results: the first is the annual discretionary income (income left after taxes, rent or mortgage payments) gained (or lost) each year as a result of moving from one state to another. The second result is the lifetime wealth gained (or lost) if the additional discretionary income had been invested each

Figure I
Change in Lifetime Wealth for 30-Year Old Single Renter Moving to Ohio



Source: Author's calculations.

For the home-owning couple, median property tax rates in Pennsylvania and Ohio are essentially the same (1.35 percent and 1.36 percent, respectively), and the state and average local sales tax rates are 6.34 percent and 7.11 percent, respectively.⁴

Ohio versus Kentucky. Kentucky's state income tax rates are higher than Ohio's and range from 2 percent to 6 percent. Thus:

- A 30-year old single renter earning \$75,000 a year would

year at a 4 percent interest rate.

Ohio versus Pennsylvania. Over the past 22 years, Ohio has gained about \$166 million in wealth (measured as adjusted gross income) as a result of people moving from neighboring Pennsylvania.³ In tax year 2014:

- A 30-year old single renter earning \$75,000 a year gained only \$92 in discretionary income, for a gain in lifetime wealth of \$9,344, moving from Pennsylvania to Ohio [see Figure I].
- A 40-year old married homeowner couple earning \$100,000 a year would have gained only an additional \$81 in discretionary income annually by moving to Ohio, for a lifetime wealth gain of \$6,723 see [see Figure II].

Thus, the tax burdens in Pennsylvania and Ohio are similar, even though the rates are slightly different. Pennsylvania has a flat income tax rate of 3.07 percent, compared to Ohio's top rate of 3.76 percent for a single earner at the \$75,000 income level, and 4.03 percent for the married couple earning \$100,000.

have gained \$861 in discretionary income, for a lifetime wealth gain of \$87,373, moving from Kentucky to Ohio [see Figure I].

- However, a 40-year old married homeowner couple earning \$100,000 a year would have lost \$917 in discretionary income annually by moving to Ohio, for a lifetime wealth loss of \$75,840 [see Figure II].

How can Ohio's tax system benefit the single renter but actually cause a loss in wealth for the married homeowners? The median property tax rate nearly doubles for the homeowners when they move to Ohio, from about 0.72 percent (in Kentucky) to 1.36 percent, assuming homes of the same price.⁵

Ohio versus West Virginia. West Virginia's income tax rates range from 3 percent to 6.5 percent — quite steep compared to Ohio. Thus:

- A 30-year old single renter earning \$75,000 a year would gain \$1,169 in discretionary income moving from West Virginia to Ohio, for a gain in lifetime

wealth of \$118,694 [see Figure I].

- However, a 40-year old married homeowner couple earning \$100,000 would lose \$879 in discretionary income annually moving to Ohio, for a lifetime wealth loss of \$72,666 [see Figure II].

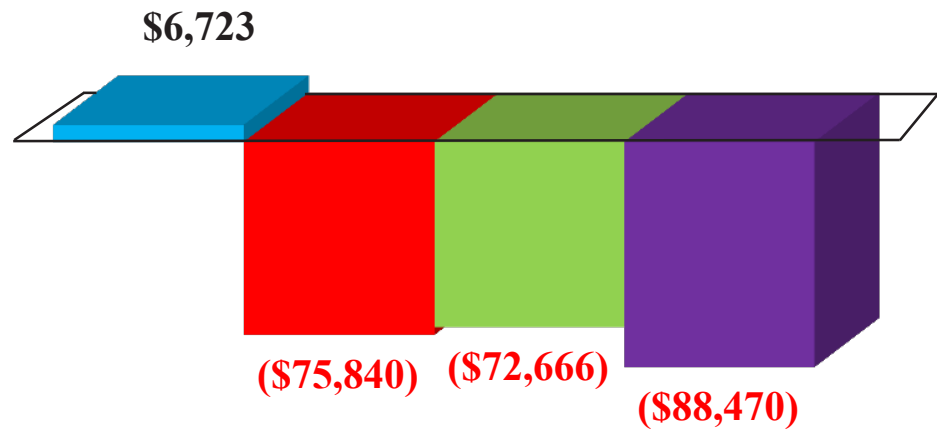
Much like the Kentucky illustration, the home-owning couple's relative tax advantage in Ohio is offset by a much higher property tax rate compared to West Virginia's median rate of 0.49 percent.

Ohio versus Indiana. Indiana has a flat income tax rate of 3.4 percent, which would ostensibly benefit high income individuals over the top marginal rates they would face in Ohio. But again, Indiana's property tax rates get in the way of tax savings for homeowners moving to Ohio. Indiana's median property tax rate is only 0.85 percent. Thus:

- A 30-year old single renter earning \$75,000 a year would gain \$166 in discretionary income moving from West Virginia to Ohio, for a lifetime wealth gain of \$16,813 [see Figure I].
- However, a 40-year old married homeowner couple earning \$100,000 would lose \$1,070 discretionary income annually by moving to Ohio, for a lifetime wealth loss of \$88,470 [see Figure II].

Sales Taxes. The State Tax Calculator assumes that half of discretionary purchases are subject to state and local sales taxes. These appear to affect the tax burden, particularly for higher income households with more discretionary income. Of the five states compared, Ohio and Indiana have the highest state

Figure II
Change in Lifetime Wealth for 40-Year Old Homeowner Couple Moving to Ohio



Source: Author's calculations.

sales tax/local average sales tax rates combined, at 7.11 percent and 7.00 percent, respectively. Pennsylvania, West Virginia and Kentucky have lower sales tax rates of 6.34 percent, 6.07 percent and 6.00 percent.

Conclusion. Ohio's tax reform has made the state more competitive with its immediate neighbors, particularly for renting households. But for homeowners, Ohio's higher property tax rates make these households worse off compared to neighboring states.

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Notes

1. "IRS Tax Migration," How Money Walks.
Available at <http://www.howmoneywalks.com/irs-tax-migration>.
2. "\$2.7 Billion Tax Cut Among Highlights of New State Budget," Ohio Department of Taxation.
Available at http://www.tax.ohio.gov/portals/0/OhioTaxAlert/ArchivedAlerts/Ohio%E2%80%99s_Newly_Approved_Two-Year_State_Budget_Tax_law_Changes.pdf.
3. "IRS Tax Migration."
4. "How High Are Sales Taxes in Your State?" Tax Foundation. Available at <http://taxfoundation.org/article/state-and-local-sales-tax-rates-2015>.
5. Assumes the homeowners purchased a \$250,000 home at age 30 with a 30-year mortgage and monthly payments of \$1,013. They purchase the same value home in the destination state, use the home equity from the previous home as a down payment, and continue the monthly payments of \$1,013.