

Opposition Testimony – HB 1
House Ways and Means Committee Hearing
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Chairman Roemer, Vice Chairman Merrin, Ranking Member Troy, my name is Karen Leith and I appreciate the opportunity to share my thoughts with the committee about opposition to HB 1 at this important stage of the legislative process. For the last four years I have served as advocacy chair of the League of Women State Board. As such, I work with all our issue specialists, therefore, dealing with the breath of issues, but especially education finance and governance. As a PhD in social psychology and with an undergraduate degree in economics and mathematics, my interests have always included the impact of financial policy decisions on the bottom quintiles of the economic spectrum. This was extremely important when I worked for Cleveland Catholic Charities in the social justice arena.

With that background, you will understand why I find the flat tax and its tremendously negative impact on the poor and middle class appalling. Along with other budget priorities that this General Assembly seems to have, such an impact will also devastate our public schools. This is all another give-away to the rich while it attacks the poor among us at a time when we need to be focused on them.

In reading through the bill, in researching what other organizations in our state are seeing and analyzing, I must agree with Policy Matters Ohio assessment:

- **\$600M:** House Bill 1 — [a short-sighted flat tax proposal](#) — would mean \$600 million a year in property tax increases for residential and agricultural property owners.
- **\$500M+:** House Bill 1 — [an ill-conceived flat tax proposal](#) — would reduce the amount of state aid and property taxes received by Ohio's schools, local governments and libraries by over \$500 million a year. (Losses to schools would be partially offset by increased aid through the foundation formula.)
- **\$780M:** House Bill 1 — [a poorly written flat tax proposal](#) — would fail to pay for \$780 million in net losses for the state.

In fact, a release, Research Director Zach Schiller used the Legislative Service Commission's fiscal note to [identify the above three long-term effects](#) of HB 1, calling them "a trifecta of bad policy."

The Institute on Taxation and Economic Policy's statistics help produce a chart that shows how it is again the wealthiest Ohioans who benefit from this flat tax. The people who need the help the most receive no benefits. And this is only the movement from a progressive graduated income tax to a flat tax! As it is, Ohio policymakers have made significant changes to personal income taxes over the past 17 years, lowering rates and

making the structure more regressive. Since state lawmakers passed House Bill 66 in 2005, they have slashed income tax rates across the board, increased the threshold at which low-income households begin to pay taxes, and eliminated the top income bracket.

Impact of HB 1							
ITEP estimates of the bill's impact							
	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Richest 1%
Income Range	< \$23,000	\$23,000 - \$47,000	\$47,000 - \$75,000	\$75,000 - \$124,000	\$124,000 - \$244,000	\$244,000 - \$617,000	> \$617,000
Average Income in Group	\$ 12,000	\$ 34,000	\$ 61,000	\$ 97,000	\$ 159,000	\$ 347,000	\$ 1,534,000
Tax Change as a % of Income	0%	0%	-.04%	-.16%	-0.4%	-0.57%	-0.73%
Average Tax Change	\$0	-\$1	-\$24	-\$155	-\$628	-\$1,974	-\$11,166

Added to the impact of the flat tax, is the effect on property taxes by the additional provisions in the bill:

- Decreases, from 35% to 31.5%, the percentage of real property's value that is subject to taxation.
- Repeals the 10% tax rollback on nonbusiness property.
- Modifies the 2.5% homestead tax rollback to equal a flat \$125 property tax credit for all owner-occupied homes.

LSC reviewed each of these changes and Policy Matters Ohio added up its fiscal estimates. While the interplay of these changes is complicated and effects will vary significantly for individual taxpayers and homeowners, the net impact in the aggregate is property-tax increases.

Policy Matters Ohio figured the ongoing long-term effects after the initial phase-in period based on the LSC analysis. It found that HB 1 would mean:

- Property tax increases of at least \$600 million a year for residential and agricultural property owners, which result from changes in the bill and the operation of Ohio's existing property tax limit, known as House Bill 920.
- Reductions in property tax and state aid received by schools, local governments and libraries of over \$500 million a year, though losses to schools would be partially offset by increases in aid through the foundation formula.
- Some \$780 million a year in net losses for the state that are not paid for in the bill. This takes into account \$1.79 billion in reduced annual revenue for the General Revenue Fund because of the flat tax and additional expenses from paying for expansions of the homestead exemption, offset by \$1.3 billion in reduced expenses

by no longer covering the 10% rollback (LSC also said any indirect increase in revenues caused by the cuts likely would be small compared to the direct effects).

- Reduced property taxes for business property owners of \$157 million a year.

While the losses to schools would be partially offset by increases in the funding formula, the decrease, from 35% to 31.5%, the percentage of real property's value that is subject to taxation would raise property tax rates and make it harder to pass local levies.

Also, being able to pay for schools through the funding formula would shift from income tax revenues to sales tax revenues, putting more of a burden on low income families. We would be going from progressive taxes to regressive taxes.

Past League of Women Voter studies, affirmed as strong positions through review every two years, are very clear that we fall on the side of progressive taxes rather than regressive ones that put added burdens on our vulnerable populations.

Specifically:

LWVO supports a personal income tax as a source of state revenue because it meets fair and equitable tax principles. The state income tax rates should be graduated.

LWVO supports real property tax relief, financed by the state, in the form of the Homestead Exemption based on age, income, and disability income.

If an increase in state taxes is needed, LWVO prefers the income tax as a source of revenue because it tends to be progressive rather than regressive.

If a decrease in state taxes is called for, LWVO supports reducing the sales tax because it is regressive and less equitable. Tax relief for those at the lower end of the income scale should be considered if there is an increase in state taxes.

HB 1 deserves a NO vote. It is another handout to the wealthy. It will have a negative impact on our public schools.