National Taxpayers Union

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Testimony of Joshua Culling, State Government Affairs Manager, National Taxpayers Union, to the Finance and Financial Institutions Committee of the Ohio Senate on HB 318

I. Introduction

Chairman Carey, Ranking Member Miller, and Members of the Committee, my name is Joshua Culling. I am State Government Affairs Manager for the National Taxpayers Union (NTU), a nationwide grassroots taxpayer organization with 362,000 members across the country, including more than 14,000 in Ohio.

I offer this testimony in opposition to HB 318, which represents an $844 million tax increase on Ohioans of all income levels. This "delay" of a five-year phased-in tax cut is not the answer to the state's budget woes and is unlikely to live up to its "temporary" billing. Claims that the tax increase is a necessity are unfounded, as state government's budgetary difficulties lie on the spending side rather than the revenue side. Years of economic mediocrity and job losses underscore the point that Ohioans do not deserve a tax increase that will only exacerbate the current downturn.

II. Spending

In unveiling his tax increase proposal, Governor Ted Strickland touted it as the only option for eliminating a budget deficit of just under $1 billion. Gov. Strickland claimed credit for $2 billion in spending cuts and blamed the budget hole on "the worst decline in state revenue in at least 50 years."[1]

In fact, the FY 2010-2011 budget represents a 6.3 percent growth in General Revenue Fund spending.[2] One-time federal stimulus money accounts for much of this increase, which is troubling for two reasons. First, it allows state government to ignore this opportunity to restore government to its proper size. The federal government, with its ability to print money, is effectively rewarding Ohio for overspending by giving the state a $3.4 billion bailout and allowing it to avoid the necessary task of getting the fiscal house in order. Second, the stimulus window will not remain open forever. Ohio has committed those dollars to new or existing spending programs; when the federal money runs out, state taxpayers will be burdened with new structural deficits.

It is clear that Ohio's budget problems have little to do with the revenue slowdown, but rather the insistence of government to spend outside its means. With proper spending restraint, Ohio policymakers could have fostered consistency and predictability from one

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[1] http://www.governor.ohio.gov/News/PressReleases/2009/September2009/News93009/tabid/1262/Default.aspx

[2] http://obm.ohio.gov/sectionpages/Budget/FY1011/ExecutiveBudget.aspx

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budget to the next, rather than the boom-and-bust cycle of overspending followed by drastic cuts and tax increases.

III. The Current Proposal

Government's refusal to tighten its belt during this recession has led to a new $851 million budget hole. Gov. Strickland has outlined three methods of eliminating the deficit: raise taxes, such as the state sales tax; cut $851 million from public schools; or freeze income tax rates at their 2008 levels and eliminate an expected income tax cut.

To be clear, the first and third options are identical. To "postpone" a scheduled tax cut is to raise taxes. The final installment of a five-year personal income tax cut was set for this year, benefiting Ohio families of all income levels. Last autumn, the Ohio Department of Taxation released tables that instructed businesses to withhold their employees' income taxes at the expected 2009 rates. This means that if the Governor's plan becomes reality, taxpayers expecting refund checks from the state may actually end up paying the state out of pocket due to under-withholding. Many others will receive a smaller refund than they might have been counting on to pay bills. In either case, government would be extracting more money from its citizens than they otherwise would have paid; that fits the definition of a tax increase.

The Governor's contention that the only possible spending cuts are in public education is simply not true. This is an especially problematic argument after such a large spending increase. In fact, House Republicans recently offered eight amendments and two bills including $3 billion in savings and streamlining redundant and inefficient state agencies.[3]

Another viable and attractive option is to rein in public employee salaries. The Buckeye Institute recently found that between 2001 and 2007, Ohioans' per capita income rose 21 percent, compared to 27 percent among state employees. State government could have saved $413 million this year by indexing public sector pay hikes to those of employees in the private sector.[4]

IV. Ohio is a High-Tax State

The consequence of the revenue-hungry nature of state government is that more of Ohioans' earnings are devoured than is the case in other states. The Governor's contention that Ohio's tax burden is "the lowest in the Midwest" could not be further from the truth. According to the Tax Foundation, Ohioans pay 10.4 percent of their income in state and local taxes, the 7th-highest rate in the nation. Neighboring Pennsylvania is close at 11th-highest, followed by Kentucky at 25th, Michigan at 27th, and Indiana at 28th.[5] The state's economic outlook, determined by 15 factors including tax

[3] http://ohiohousegop.blogspot.com/2009/09/house-gop-leaders-offer-alternatives-to.html
[4] http://www.buckeyeinstitute.org/article/1461
[5] http://www.taxfoundation.org/research/topic/50.html

rates, debt, and regulation, is the nation's 45th-best according to the American Legislative Exchange Council.[6]

In our federal system, states compete with one another – for people, for jobs, and for investment. Ohio's inhospitable tax climate has made the state less competitive. This is best illustrated by the number of citizens have moved in and out of the state. Between 1998 and 2007, Ohio lost nearly 400,000 people in terms of domestic migration – 6th-worst in the country.[7]

Naturally, HB 318 would exacerbate Ohio's plight. High taxes do not bring prosperity. They chase families and jobs across state lines. With taxpayers already suffering from the sluggish economy and the demands of big government here, surely it is only home-state pride keeping them from jumping to a state like Texas which, with no personal income tax and a commitment to responsible and transparent government, created more jobs in 2008 than all 49 other states combined.[8] Rather than losing residents, Texas attracted almost 737,000 between 1998 and 2007, 3rd-highest in the nation.[9]

V. Conclusion

In Ohio, the writing has been on the wall for some time. Spending is too high, taxes are too high, and government continues to grow at an unsustainable rate. The current economic downturn has shed considerable light on Columbus' revenue addiction, which must be addressed. This discussion should also include an honest and transparent discussion about core government priorities, and a decision about which areas of the economy are best left in the hands of the private sector.

There are efficiencies to be found and wasteful programs to be pared back, and it need not be a drastic $851 million cut to public education – though there are likely some inefficiencies to be found there. The Legislature would be wise to make the budget more transparent and accessible to taxpayers and partner with constituents to take a hard look at how to restrain government so that it promotes economic growth and prosperity.

Most importantly, this Committee should reject HB 318. If you vote in favor of this bill, families and small businesses already struggling to stay afloat during this recession will have even more difficulty surviving. They have been forced to make financial decisions that will keep them afloat without drowning others. Government should do the same.

Chairman Carey I thank you for the opportunity to address the Committee today and I would be happy to answer any questions.

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[6] http://www.alec.org/am/pdf/tax/09RSPS/states/09ohio.pdf
[7] *Ibid*
[8] http://www.rickperry.org/texassucceeding
[9] http://www.alec.org/am/pdf/tax/09RSPS/states/09texas.pdf