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Providing an Accurate Measure of Ohio's State and Local Tax Burden

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The Education Tax Policy Institute (ETPI) issued a report in July 2004 criticizing the Tax Foundation's state and local tax burden estimates for Ohio.¹ In its report, ETPI examines state and local tax collections reported by four groups, all of which are based on state and local tax collection figures from the Census Bureau: the Federation of Tax Administrators, *Congressional Quarterly*, the Ohio Department of Taxation and the Ohio Public Expenditure Council.

According to the ETPI report, each of the four groups ranked Ohio 20th in per capita tax collections, and either 20th or 22nd as a percentage of income.² Noting that the Tax Foundation ranks Ohio's state and local tax burden 11th highest per capita and 3rd highest as a percentage of income, the ETPI report concludes that the Tax Foundation has overstated Ohio's state and local tax burden.

The ETPI report's criticism is not persuasive for several reasons. First, the report compares Tax Foundation figures from 2004 with other groups' figures from 2000. Because Ohio's tax burden rose considerably between 2000 and 2004, this is an illegitimate comparison. The correct comparison would be between fiscal year 2000 tax collections from the groups listed above with Tax Foundation tax burden estimates for calendar year 2000. As illustrated in Table 1, when Tax Foundation figures are compared to other sources on a same-year basis, there is substantially less difference between the figures.

Table 1: When Compared on a Same-Year Basis, Tax Foundation Figures are Similar to Census Bureau Figures Used by Other Organizations

Organization	Per Capita Rank	Percent of Income Rank
Federation of Tax Administrators, 2000	20	20
<i>Congressional</i>	20	20

<i>Quarterly, 2000</i>		
Ohio Department of Taxation, 2000	20	20
Ohio Public Expenditure Council, 2000	20	22
Tax Foundation tax burdens, 2004 (as cited in ETPI report)	11	3
Tax Foundation tax burdens, 2000 estimate at the time the ETPI report was published	17	12

Source: Tax Foundation; Education Tax Policy Institute

Second, the ETPI report gives the appearance that the four groups cited calculate independent estimates of Ohio tax collections. In fact, all four groups employ the same Census Bureau figures, and do not independently measure state and local tax collections. The four groups cited in the ETPI report did not independently reach similar conclusions that are different from those of the Tax Foundation. In fact, because all four groups rely on data from the same source, it is unsurprising that they all differ from Tax Foundation figures by similar amounts.

Third, the ETPI report makes the elementary mistake of confusing the “legal incidence” of taxes with their “economic incidence,” which is a distinction that is crucial for the economic analysis of tax burdens. The legal incidence of taxes falls on those with the legal obligation to remit tax payments. In contrast, the economic incidence falls on those who bear the true economic burden of taxes. In general, the legal and economic incidence of a tax is substantially different, making it important to adjust raw tax collection figures—which reflect legal incidence only—to better reflect the true tax burden.

The Census Bureau figures reported by each of the groups in the ETPI report measure only the legal incidence of state and local taxes. Census Bureau figures do not attempt to allocate tax collections based on the economic incidence of those taxes. As a result, they do not provide policymakers with information about the actual tax burden borne by residents in state and local areas. Census Bureau figures report only the dollar amounts of taxes received by state and local governments. They do not report the amount of taxes borne by individual taxpayers, which is the more relevant measure for economic analysis of the impact of taxes on state and local economies.³

The ETPI report ignores this distinction. The report criticizes the Tax Foundation for adjusting state and local tax collections to better reflect the economic incidence of severance taxes, corporate taxes and tourism taxes. In fact, Tax Foundation adjustments to better reflect the economic incidence of taxes are an essential step that is routinely done by economic analysts, including those at the Congressional Budget Office, the U.S.

Treasury Department and Urban-Brookings Tax Policy Center. Because Census Bureau tax collections reflect only the legal incidence of taxes, it is incorrect to compare them directly to Tax Foundation tax burdens.

Finally, the ETPI report fails to account for other important differences between Tax Foundation and Census Bureau figures. First, Tax Foundation tax burdens are based on the normal calendar year from January to December, while Census Bureau tax collections are based on the fiscal year used by most states, from July to June. This difference in timing does not allow the figures to be directly compared, as done in the ETPI report. In addition, when calculating taxes as a percentage of income the Tax Foundation employs Net National Product from the Bureau of Labor Statistics, while the Census Bureau uses Personal Income, which accounts for some of the difference between the figures.

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