

# Income Tax as a Source of Revenue for LCSD

Standard and Earned Income Tax

Finance Committee  
LCSD Planning Commission  
Jan. 5, 2022

# Background

- This report is NOT a proposal or recommendation
- The purpose of this report is to inform the district
  - Income taxes are a potential source of revenue to school districts in Ohio
  - Community members have raised questions about income taxes as revenue sources

# Background

## Current Funding Sources:

- Local Property Taxes - 59%\*
- State of Ohio - 31%
- Federal Government - 4%
- Other Non-Tax Revenue - 6%

## What this report is NOT:

- Property tax can only remain flat or decrease. (for Outside Millage)\*\*
- NO increases with property value increases (except inside millage)
- Specific to school income. Property tax going to other sources can fluctuate.

## Share allocated to local property taxes:

- Calculated by State formula that estimates “Ability to Pay”
- Heavy dependency on Median Income and Property Values

## Income Tax Landscape:

- 238/610 Ohio Districts use income tax
- 156 Traditional; 82 Earned

\*92% of this comes from residential and agricultural property taxes.

\*\*Outside millage represent ~90% of Loveland Property Tax Revenue

# Earned vs. Traditional

Traditional Tax Base	Earned Income Tax Base
<i>Income that is <b>not taxed</b>:</i>	
<ul style="list-style-type: none"> <li>• Social Security benefits;</li> <li>• disability and survivor benefits;</li> <li>• railroad retirement benefits;</li> <li>• welfare benefits;</li> <li>• child support;</li> <li>• property received as a gift, bequest or inheritance;</li> <li>• workers' compensation benefits.</li> </ul>	<p>all other types of income and deductions that are included in the traditional income tax base (interest, dividends, capital gains, pensions, etc.), and does not allow the personal exemptions that are allowed under the traditional tax base.</p>
<i>Income that <b>IS taxed</b>:</i>	
<p>wages; salaries; tips; interest; dividends; unemployment compensation; self-employment to the extent included in OAGI; taxable scholarships and fellowships; pensions; annuities; IRA distributions; capital gains; state and local bond interest (except that paid by Ohio governments); federal bond interest exempt from federal tax but subject to state tax; alimony received; and all other sources.</p>	<p>wages, salaries, and other compensation and net earnings from self employment (including income from partnerships), to the extent the income is included in modified adjusted gross income (MAGI), of the residents of the school district.</p>

# LCSD Profile - CUPP Report

LCSD is a Significant outlier in Business Income Tax contribution to school funding:

- LCSD gets 8% of school funding contribution from business taxes vs. average district contribution of 26%
- Rank 578 out of 610 in Business Income Tax Contribution
- Districts WITHOUT an income tax average 28.7% of their property tax from business
- Districts WITH an income tax average 20.6% of their property tax from business

# Source of Data for Analysis

• <https://www.irs.gov/statistics/soi-tax-stats-individual-income-tax-statistics-zip-code-data-soi>

• Zip Code Level

• Income Distribution

• Types of Income

• “Senior” Tax Filers

• 2018 is most recent

• These data are for federal income tax filers only

An official website of the United States Government

IRS

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## SOI Tax Stats - Individual Income Tax Statistics - ZIP Code Data (SOI)

**A Closer Look**

Volunteer

**Tax Statistics**

Taxpayer Compliance

Products and Publications

Individual Tax

Business Tax

By Form

Charitable

Estate and Gift

IRS Data Book

Help us to evaluate the information and products we provide on our Web page, [Tax Stats](#), by participating in this short, 5-minute survey: [Tax Stats Customer Satisfaction Survey 2020](#).

### Individual Income Tax ZIP Code Data

ZIP Code data show selected income and tax items classified by State, ZIP Code, and size of adjusted gross income. Data are based on individual income tax returns filed with the IRS and are available for Tax Years 1998, 2001, and 2004 through 2017. The data include items, such as:

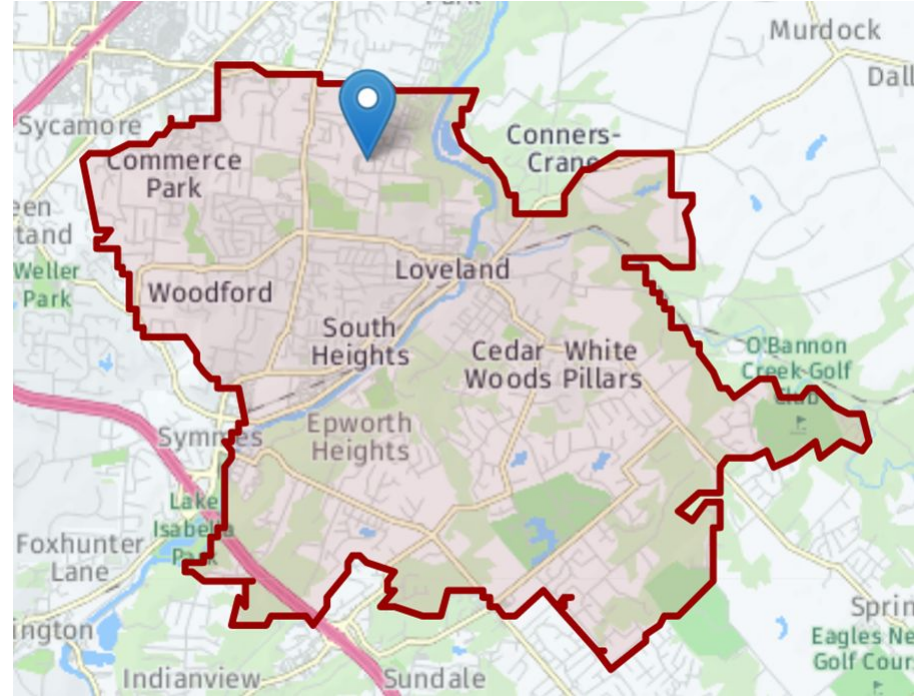
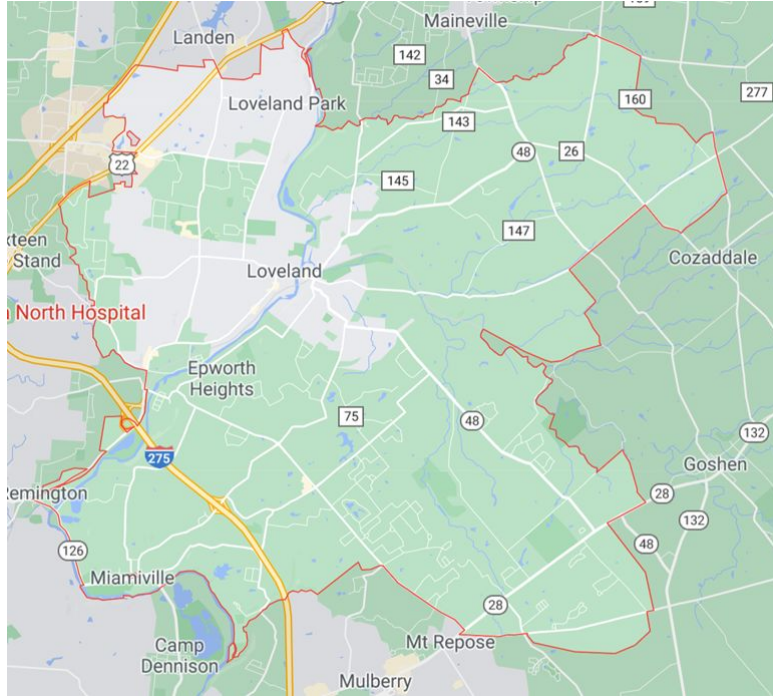
- Number of returns, which approximates the number of households
- Number of personal exemptions, which approximates the population
- Adjusted gross income
- Wages and salaries
- Dividends before exclusion
- Interest received

ZIP Code data for years 1998, 2001, and 2004 through 2017 are available as single Zip files containing all State Excel files. The files are compressed using the WinZip utility and must be downloaded and extracted before viewing or loading into any application. A [free WinZip utility](#) is available, if needed.

ZIP Code Data

1998 2001 2004 2017 2018

# Loveland Schools and 45140 Zip Code



# Seniors Relative to Overall Population

Income Bracket	# of Returns	Over 60	Under 60	Over 60 Distribution	Under 60 Distribution
<\$25k	7,100	1,240	5,860	18.2%	29.1%
\$25k - \$50k	4,680	1,130	3,550	16.6%	17.6%
\$50k - \$75k	3,670	1,120	2,550	16.4%	12.7%
\$75k - \$100k	2,770	900	1,870	13.2%	9.3%
\$100k - \$200k	5,670	1,660	4,010	24.3%	19.9%
>\$200k	3,050	770	2,280	11.3%	11.3%
All	26,940	6,820	20,120	100.0%	100.0%



# Social Security Relative to Overall Population

Income Bracket	# of Returns	On Social Security	Not on Social Security	SS Dist	Pre-SS Dist
<\$25k	7,100	380	6,720	9.5%	29.3%
\$25k - \$50k	4,680	850	3,830	21.4%	16.7%
\$50k - \$75k	3,670	800	2,870	20.1%	12.5%
\$75k - \$100k	2,770	600	2,170	15.1%	9.5%
\$100k - \$200k	5,670	1,030	4,640	25.9%	20.2%
>\$200k	3,050	320	2,730	8.0%	11.9%
All	26,940	3,980	22,960	100.0%	100.0%

# Tax Impact Analysis

Income Bracket	# of Returns	Total Income	Earned Income	Other Income	Other % of Total	Tax from 1% Income Tax	Tax from 1% Earned Income Tax	1.34% Earned Income Tax
<\$25k	7,100	\$11,139	\$9,180	\$1,960	17.60%	\$111	\$92	\$123
\$25k - \$50k	4,680	\$37,494	\$30,458	\$7,036	18.80%	\$375	\$305	\$409
\$50k - \$75k	3,670	\$62,535	\$48,220	\$14,314	22.90%	\$625	\$482	\$648
\$75k - \$100k	2,770	\$88,427	\$66,940	\$21,487	24.30%	\$884	\$669	\$900
\$100k - \$200k	5,670	\$140,991	\$110,817	\$30,173	21.40%	\$1,410	\$1,108	\$1,489
>\$200k	3,050	\$393,169	\$272,520	\$120,648	30.70%	\$3,932	\$2,725	\$3,662
All	26,940	\$101,247	\$75,339	\$25,908	25.60%	\$1,012	\$753	\$1,012

Figure 1 presents two levels of Earned income tax to a Traditional benchmark of 1%:

- The 1% Earned tax shows the direct comparison to the 1% Traditional tax
- The 1.34% Earned tax shows the impact of the tax needed to generate the same revenue vs. the Traditional 1% tax.

# Tax Impact Analysis

Income Bracket	Tax from 1% Income Tax	Traditional Tax Rate as a % of Total Income	Tax from 1.34% Earned Income Tax	Earned Income Tax Rate as % of Total Income	Dollar Change	% Change
<\$25k	\$111	1.00%	\$123	1.11%	\$12	10.8%
\$25k - \$50k	\$375	1.00%	\$409	1.09%	\$34	9.2%
\$50k - \$75k	\$625	1.00%	\$648	1.04%	\$23	3.6%
\$75k - \$100k	\$884	1.00%	\$900	1.02%	\$15	1.7%
\$100k - \$200k	\$1,410	1.00%	\$1,489	1.06%	\$79	5.6%
>\$200k	\$3,932	1.00%	\$3,662	0.93%	(\$269)	-6.9%
Average	\$1,012	1.00%	\$1,012	1.00%	\$0	0.0%

# Observations from the Tax Impact Analysis

Why are the income tax brackets cutoffs shown as they are on the chart?

- The income bracket cutoffs are from the original IRS data.

How are the potential taxes paid calculated?

- All numbers representing potential taxes paid are average per household numbers.

What does the analysis show us?

- In the revenue-neutral comparison between a Traditional income tax and an Earned income tax, all income brackets below \$200k per year would pay more taxes on average per household with an Earned income tax.
- Earners above \$200k per year would pay less tax on average with an Earned income tax relative to a Traditional income tax. Higher income households on average receive a smaller share of their income from earned income.
- These two facts show that (on average) in LCSD an Earned Income Tax would be a regressive tax (in other words, taxes a higher proportion from lower-income households) while a Traditional Income Tax would be closer to a flat tax (where everyone is charged the same percent tax regardless of their income).

	<b>POTENTIAL BENEFITS</b>	<b>POTENTIAL CONCERNS</b>
<b>TRADITIONAL INCOME TAX</b>	<ul style="list-style-type: none"> <li>● Brings in more revenue for lower rate</li> <li>● Used in districts which have less business tax income</li> </ul>	<ul style="list-style-type: none"> <li>● Some retirees feel that because their income is fixed, they should not have to pay the same percentage tax as those who are still in the workforce.</li> </ul>
<b>EARNED INCOME TAX</b>	<ul style="list-style-type: none"> <li>● Protects passive retirement income</li> <li>● Retired voters may be more willing to vote for future levies if their retirement income is protected.</li> <li>● City of Loveland uses earned income tax</li> </ul>	<ul style="list-style-type: none"> <li>● Requires a higher rate to earn the same amount of money as the traditional tax</li> <li>● On average a regressive income tax</li> </ul>
<b>BOTH TYPES OF TAXES</b>	<ul style="list-style-type: none"> <li>● Social Security payments are excluded</li> <li>● Can be continuing or a fixed # of years</li> <li>● Can be accompanied by a reduction in property tax millage</li> <li>● Allows for steady income with less reliance on levies</li> </ul>	<ul style="list-style-type: none"> <li>● If a repeal effort is made on an existing tax and fails, the issue cannot appear on a ballot again until the same fixed number of years of the tax has passed.</li> <li>● Perceived conflict with City of Loveland's tax.</li> <li>● Requires filing an additional tax form (Ohio SD 100)</li> </ul>

# Final Thoughts

Income Tax can be a viable option for LCSD with some watch outs:

- a. Coordination with the City of Loveland is critical. Historical Tax domains need to be worked out and the relationship curated.
- b. Income tax (of either type) offer demographic (and voter) challenges. LCSD will need to give these careful consideration before proceeding with any proposals.