

# TAX BREAKS RIDDLE OHIO'S TAX CODE

## *NEW NATIONAL REPORT DETAILS HOW TO IMPROVE ACCOUNTABILITY*

Ohio spends \$7 billion a year in the form of tax credits, exemptions, and deductions with little evaluation of whether it benefits Ohioans or is effective in achieving the tax breaks' purpose. The General Assembly should enact legislation requiring the state to better track this spending and evaluate its effectiveness.

"On the one hand, the House has just approved major cuts to education, local government and other services that Ohioans depend on," said Zach Schiller, research director of Policy Matters Ohio. "Yet on the other hand, we're losing money to tax giveaways without any evaluation of whether they benefit Ohioans in any way. It doesn't make sense."

This lack of oversight is due to indirect, or silent, spending known as tax expenditures. They are tax credits, exemptions and deductions that – unlike other state spending -- do not require an ongoing review once they are part of the tax code. Unlike direct state spending, which policymakers examine and decide on every two years, tax expenditures do not require biennial approval from the legislature and governor.

For example, a special tax cap allows wealthy buyers of shares in jet aircraft to only pay a small share of the Ohio sales tax that that would otherwise be due. Ohio produces an annual report designed to track such spending through the tax code, but the report falls short in a number of areas, according to a report released today by the Center on Budget and Policy Priorities (CBPP), a Washington, DC-based nonpartisan, nonprofit policy research organization.

"A well-designed tax expenditure report can help a state save money – something most states desperately need to do right now," said Michael Leachman, co-author of the report and assistant director for state fiscal policy at the Center. "By showing policymakers and the public how a state is spending its money and what that spending is accomplishing, a tax expenditure report can identify ineffective spending through the tax code that policymakers can then eliminate."

While Ohio's report provides useful information on 128 tax expenditures, it does not list the rationale for each expenditure or any analysis of whether it is meeting its purpose. Nor does it include information on how many recipients there are for each break, the distribution of benefit by income level, or the foregone revenue from excluding many services from the sales tax base, as some other state reports do.

Citing the previous edition of the CBPP report, the Ohio Chamber of Commerce and Ohio's Metropolitan Chambers of Commerce last December called for a thorough review of tax expenditures as part of the FY2012-13 budget process. "Ohio's laissez faire approach to tax expenditures is the opposite of the biennial budget review process required for all state appropriations," it said in *Redesigning Ohio: Transforming Government into a 21st Century Institution*. "*These shortcomings should be corrected under a new tax expenditure review.*" (italics in the original)

"Ohio faces very difficult choices in order to deal with the drop in revenues we've experienced due to the tax cuts of 2005 and the recession," said Schiller. "At the very least, policymakers and residents should know where the state's money is going in order to prioritize and decide which sacrifices to make."

Policy Matters Ohio has proposed that the General Assembly reduce tax expenditures by 10 percent as part of the Fiscal Years 2012-2013 budget. It also recommends that the General Assembly set up a schedule to review all tax breaks on a permanent basis, and require that any new tax expenditures expire or "sunset" after a set period of time.