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# POLICY MATTERS OHIO

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## **Ohio tax breaks may be reviewed, but stronger action is needed**

The Ohio Senate has taken a long-needed step in approving the creation of a committee to review state tax breaks on a regular basis and examine new tax-break proposals before bills are passed containing them. The conference committee on the budget should approve this measure as a basic element of good government. Additional action is also needed.

In its biennial report that is part of the governor's executive budget, the Ohio Department of Taxation estimated the value of 128 tax exemptions, credits and deductions in the tax code, or "tax expenditures," at more than \$7 billion a year.<sup>1</sup> Numerous organizations, from the Ohio Chamber of Commerce to newspapers across the state, have endorsed stricter scrutiny of these tax expenditures.<sup>2</sup> Under the budget bill approved June 8 by the Senate, an eight-member committee of legislators would be appointed to review all of the state's tax expenditures at least once every eight years and "make recommendations as to whether each tax expenditure should be continued without modification, modified, scheduled for further review at a future date to consider repealing the expenditure, or repealed outright."<sup>3</sup> It would require any new bill creating or modifying a tax expenditure to include its objectives and the sponsor's intent in proposing it.

The General Assembly should go one step further, and sunset existing tax expenditures. Other states use sunsets. In Oregon, for example, nearly all state income-tax credits sunset every six years; a third come up for review every two years. Ohio could require that a quarter of its existing 128 tax

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<sup>1</sup> State of Ohio, The Executive Budget, Fiscal Years 2012 and 2013, Book Two: The Tax Expenditure Report, Prepared by the Ohio Department of Taxation, available at <http://obm.ohio.gov/>. Policy Matters Ohio reviewed the report and made recommendations on tax expenditures in a March 2011 study, "\$7 Billion in Tax Breaks, and Nobody's Watching," available at <http://www.policymattersohio.org/TaxExpenditures2011.htm>

<sup>2</sup> See Ohio Chamber of Commerce and Ohio's Metropolitan Chambers of Commerce, *Redesigning Ohio*, December 2010; *The Akron Beacon Journal* editorial, "Uncontrolled Spending," May 13, 2011; *The Dayton Daily News* editorial, "Tax Breaks not Free; They Put Drain on Budget," June 9, 2011; *The Plain Dealer* editorial, "When Three Different Think Tanks with Quite Different Outlooks Agree on a List of Tax Loopholes to Close, Ohio's Leaders Should Listen," May 21, 2011; *The Columbus Dispatch* editorial, "Ripe for Review," June 10, 2011. The Center for Community Solutions, the Buckeye Institute for Public Policy Solutions and the Greater Ohio Policy Center called for repeal of certain tax expenditures and the creation of a sunset review process of them in a May 16, 2011, letter to Gov. Kasich, available at [http://www.communitysolutions.com/assets/1/workflow\\_staging/News/1241.PDF](http://www.communitysolutions.com/assets/1/workflow_staging/News/1241.PDF).

<sup>3</sup> Sub. H.B. 153, As Passed by the Senate, available at [http://www.legislature.state.oh.us/BillText129/129\\_HB\\_153\\_PS\\_N.html](http://www.legislature.state.oh.us/BillText129/129_HB_153_PS_N.html)



expenditures expire every two years, in line with the Senate's call for all of them to be reviewed over an eight-year period. Tax exemptions, credits and deductions have the same impact on the state budget as state spending, which is reviewed in the biennial budget-making process. The Ohio Constitution says: "No money shall be drawn from the treasury, except in pursuance of a specific appropriation, made by law; and no appropriation shall be made for a longer period than two years."<sup>4</sup> Tax breaks should be treated the same way as other spending and expire unless renewed.

The Senate measure is noteworthy in instituting some measure of review to this previously under-scrutinized realm of state government. However, it only requires the first report from the committee by the end of 2012. Yet the governor's budget proposal, House and Senate versions all call for major cuts in support for schools, higher education, local government and human services. The committee should be charged with finding significant reductions in tax breaks during the FY2012-13 biennium. A specific target should be set. Policy Matters Ohio has previously recommended 10 percent of tax expenditures, or more than \$700 million a year. The committee should meet and forward recommendations to the General Assembly so they can be approved this calendar year, thus providing additional, meaningful revenue within the FY2012-13 budget. Finally, the General Assembly should include an appropriation to fund the committee's work.

The Senate's willingness to provide a regular mechanism for reviewing tax breaks is a breakthrough in good government and fiscal policy. At a time when proposals for new tax breaks are proliferating, its requirement that proposed new tax expenditures be reviewed in advance of their approval is also a major step forward. The conference committee should approve these measures, while strengthening them with tax expenditure sunsets and a meaningful target for cuts in the upcoming budget.

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<sup>4</sup> Ohio Constitution, Article 2.22