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Read the report at:

<http://www.policymattersohio.org/TaxExpenditures2011.htm>

\$7 Billion in Ohio Tax Breaks, and Nobody's Watching **New state report details 128 tax credits, exemptions and deductions**

The Ohio Department of Taxation estimates that 128 exemptions, credits and deductions in the tax code will amount to more than \$7 billion in foregone revenue to the state's General Revenue Fund over each of the next two fiscal years. A new study by Policy Matters Ohio analyzes the ODT's tax expenditure report, which was sent to the legislature with the rest of Gov. John Kasich's budget last week. The ODT report examines credits, deductions and exemptions in the tax code that reduce the amount of revenue the state would otherwise receive.

Most tax expenditures remain in effect indefinitely with little or no scrutiny by policy makers, Policy Matters noted. No committee of the General Assembly holds hearings on tax expenditures or systematically examines them as part of the budget process. "Gov. Kasich has not proposed to limit or eliminate a single tax expenditure in his budget proposal," said Zach Schiller, research director at Policy Matters Ohio and author of the study. "This is remarkable, given the huge reductions in aid to local governments and proposed cutbacks to public education and higher education spending, programs for children, and other items in the budget."

"Tax expenditures result in a loss of tax revenue to state government, thereby reducing the funds available for other government programs," ODT noted in its report. "In essence, a tax expenditure has the same fiscal impact as a direct government expenditure." The report estimates foregone revenue, which is not necessarily what the state would get if a tax expenditure was repealed.

Policy Matters Ohio found that among the highlights in the new report are:

- The number of tax expenditures has grown. It increased to 128, from 122 in the previous biennium.
- Most of the exemptions, credits and deductions go to businesses. Seventy-three of the tax expenditures, accounting for just over half of the total value in FY12 or \$3.7 billion, go for business assistance and economic development.
- Sales-tax expenditures account for the largest share of the total: 56, adding up to \$4.8 billion in FY12 and more than \$5 billion in FY13.
- Credits against the commercial activity tax (CAT) will amount to \$456.7 million in FY12, compared to estimated tax collections of \$1.47 billion.



- Five business tax credits against the commercial activity tax – four economic development incentives and a credit against past losses – are estimated to add up to more than \$100 million in annual tax credits. This tax was created in 2005 in part to cut down on loopholes that had existed in the corporate income tax it replaced.
- The state continues to provide special-interest tax exemptions and credits such as one for wealthy buyers of time shares in jet aircraft. That sales tax cap is worth more than the \$500,000 a year by which the governor’s budget proposal would reduce aid to foodbanks. Eliminating the sales-tax exemption for pollution-control equipment purchased by utilities – most of it mandated -- could reduce the cut to libraries by 21 percent.

Policy Matters recommended that the General Assembly closely review the tax expenditure report, and reduce or eliminate unneeded loopholes. It should set a target – 10 percent of the \$7.4 billion estimated for FY12 would make a good starting point – for temporary or permanent annual reductions as part of the FY12-FY13 budget. This could include reductions in tax credits, as other states have undertaken.

The study also recommended that the General Assembly set up a schedule to review all tax expenditures on a permanent basis. The purpose of each of the 128 tax expenditures identified in the report should be spelled out, so that the review can determine whether that purpose is being met. New tax expenditures should have automatic sunsets, so they only continue after their worth has been proven.

“While it does not provide a comprehensive list of loopholes, Ohio’s tax expenditure report provides a beginning point for analysis and action on this important element of the state budget,” Schiller said. “Now, it is up to the General Assembly to get started.”

Policy Matters Ohio is a nonprofit, nonpartisan research institute with offices in Cleveland and Columbus.