

Multiplying Ohio Tax Breaks

Exemptions grow even as talk increases of reining them in

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During the past year, both houses of the Ohio General Assembly have taken up the issue of tax expenditures – exemptions, credits and exclusions in the tax code that mean taxes that would otherwise be paid are not. Hearings have been held, as legislators looked at the \$7 billion in annual tax expenditures. A year ago, as part of the budget, the state Senate approved the establishment of a permanent committee to review tax expenditures. However, that measure ultimately did not win approval and no such review has actually been established.

Now, tax expenditures are getting renewed attention, with reports that Gov. John Kasich may propose closing tax loopholes – especially sales-tax exemptions – as part of a drive to reduce the state income tax.¹ The latter goal is misplaced: Cutting the income tax would favor the richest Ohioans while depriving the state of badly needed resources for schools, public safety and human services.² As recent research has demonstrated, states without income taxes don't perform any better on a number of key measures of economic performance, such as median household income growth, than those with the highest top income-tax rates; in fact, they often do worse.³ But getting rid of tax loopholes is a great idea.

Even while the talk of closing loopholes continues, however, state policymakers are creating more special-interest tax expenditures. The General Assembly has been approving a variety of new exclusions and credits, usually with Gov. Kasich's approval, and a blizzard of bills that would create more of them has been proposed. This year alone, the legislature has created or expanded tax credits or exemptions for companies that employ people at home, convention centers, financial institutions,

Key findings

- Tax breaks have been created or expanded this year for firms that employ people at home, convention centers, financial institutions, motion-picture producers, and companies that do work for direct marketers, among others
- Their cost is hard to pinpoint, but it could run into tens of millions of dollars a year
- A couple of loopholes have been plugged or prevented, but the pattern of special-interest tax breaks continues

¹ Vardon, Joe, "Kasich aims for sales-tax 'reform' to pay for income-tax cut," The Columbus Dispatch, Aug. 1, 2012, available at <http://bit.ly/OJuRcJ>.

² Like most states, Ohio has a graduated income tax, under which rates rise as income grows. Across-the-board rate cuts produce windfalls for the most affluent. For instance, Gov. Kasich's existing proposal to reduce the income tax based on a higher severance would provide an average \$2,300 annual savings to the top 1 percent of Ohioans, while leaving the middle fifth of taxpayers on average with just \$42. More than 40 percent of the cut would go to the top 5 percent, those Ohioans making more than \$137,000 a year. See Zach Schiller, "Income-Tax Cut Would Favor Affluent: Middle-class Ohioans wouldn't get enough for a tank of gas," Policy Matters Ohio, March 19, 2012, available at <http://bit.ly/O2P5za>.

³ See Institute on Taxation and Economic Policy, "High Rate" Income Tax States Are Outperforming No-Tax States," February, 2012. Available at www.itepnet.org/pdf/junkeconomics.pdf.

motion-picture producers, and firms that do work for direct marketers, among others. Another proposed credit for companies creating jobs at vacant properties was converted into a grant program and approved, illustrating how such tax measures are in fact the same as state spending. It doesn't make sense for the General Assembly to be carving out such exceptions in the tax code at a time when schools and local governments have seen their support slashed, and human service programs are struggling.⁴ Cutting the income tax under these circumstances is also misguided.

Exactly how much revenue state and local governments will forfeit because of the changes is impossible to pin down because not enough is known about some of them to make a credible estimate. However, it could run into tens of millions of dollars annually. That won't create anywhere near the same fiscal strain as the tax changes in the biennial budget approved last year, which ended the estate tax and created more than a dozen new tax breaks for businesses, agriculture, energy, racetracks and others.⁵ But it continues a pattern of monkeying with the tax code, often for special interests and in mysterious ways, instead of eliminating loopholes.

Tax expenditures and related special-interest legislation approved this year that are expected to subtract revenue the state and localities would otherwise receive are listed and briefly described below. Most were included in House Bill 487, the main bill in Gov. Kasich's Mid Biennium Review, or House Bill 508, a potpourri of tax changes that was taken out of the original budget proposal and approved separately.

- 1) **Job creation tax credits for companies with employees working at home.** House Bill 327 allowed companies to receive job creation tax credits for home-based employees. Employers can only apply for the credits once they employ 200 more workers than were employed on June 30, 2011. The program lasts for a six-year trial period, at which point the development department director will submit a report on it. Employees must be paid 131 percent of the federal minimum wage, or \$9.50 an hour at the current rate.⁶ That compares with the *average* of 150 percent of the federal minimum wage required by the existing tax-credit program. Among those testifying in support of the expanded tax credit was Jill Dipuccio Giles of Cincinnati-based Convergys Corp., a major call center operator. According to Gongwer News Service, she said the company has been implementing home agent programs for its customer management clients and would be encouraged to create additional home agent jobs with the change to the JCTC program.⁷ Convergys, it should be noted, received a giant incentive package to keep its headquarters in Cincinnati in 2003, but did not meet the required job threshold and last year paid \$14 million back to the city as part of a renegotiated deal.⁸
- 2) **Property tax exemptions for operators of two different convention centers.** The Mid Biennium Review's corrections bill, approved in May and signed by the governor in June, House Bill 487, exempted the Columbus convention center "regardless of whether the property

⁴ See Wendy Patton, "A Thousand Blows: State Budget Slashes Funding for a Wide Swath of Local Government Services," Policy Matters Ohio, Sept. 2, 2011, available at <http://bit.ly/RlzX23>, and Wendy Patton, Piet van Lier and Elizabeth Ginther, "The State Budget and Ohio's Schools," Policy Matters Ohio, Jan. 19, 2012, available at www.policymattersohio.org/state-budget-ohio-schools-jan2012.

⁵ See "New Tax Breaks in Ohio's State budget," Policy Matters Ohio, July 27, 2011, available at <http://bit.ly/OJwPtE>

⁶ Under the new law, the director of development may require the employer receiving the credit to make available health care benefits and tuition reimbursement to all employees.

⁷ Gongwer News Service, Senate Committee Hearings, Ways & Means & Economic Development, May 3, 2012.

⁸ *The Cincinnati Enquirer*, "City budget: No layoffs this time, \$14m from Convergys," Dec. 2, 2011.

is leased to or otherwise operated or managed by a person other than the convention facilities authority.”⁹ House Bill 508, one of the bills carved out of Gov. Kasich’s original budget proposal, similarly exempted the Youngstown convention center, “regardless of whether the property is leased to or otherwise operated or managed by a person other than the city.” The Legislative Service Commission noted that the county auditor’s web site showed annual taxes owed of \$497,600 for the \$42 million Covelli Centre in Youngstown and adjacent parking areas, access, and grounds.¹⁰ “This provision of the bill will reduce tax revenues owed to units of local government,” it said.

- 3) **Special tax treatment for certain financial institutions.** House Bill 508, the tax bill, also permits a “qualified financial institution” – one owned 80 percent or more by a grandfathered unitary savings and loan holding company – to choose a different method than the usual one to calculate the corporate franchise tax it owes. Instead of basing its tax payment on the relative amount of its sales, property and payroll that it has in Ohio, it can just use one factor, sales. It’s not clear which institution sought this change, though it likely was a multi-state company with large operations both in and outside Ohio. “The fiscal effect of this provision is uncertain, but it will likely result in a loss of tax revenue,” said the LSC.¹¹
- 4) **New grants for companies that create jobs in formerly vacant properties.** House Bill 18, which was approved in April, authorizes grants to companies that create at least 50 jobs in properties that have been at least 75 percent vacant for a year or more.¹² The three-year program, which permits grants of \$500 for each full-time employee hired, would be funded in FY2013 with other money appropriated to the development department but unexpended. As noted above, this was originally proposed as a tax credit, but was changed into a grant program while under consideration in the House. While this program is more tightly defined than many new economic-development measures – and has a sunset – it does not require that the development take place in distressed areas or that employees are paid any more than the minimum wage. As the LSC noted, it also will be hard to say whether any expansions or relocations have occurred as a result of the grant program, or whether they would have occurred anyway.¹³
- 5) **An extension of the Enterprise Zone tax-abatement program.** The General Assembly again extended the Enterprise Zone tax-abatement program for another year as part of the mid-biennium budget bill, HB 487. The program allows local governments to grant tax exemptions for real and personal property for qualifying improvements made within designated EZ areas. A 2009 study mandated by the General Assembly recommended that the Enterprise Zone program be extended for one year, and that it then be consolidated with other property-tax abatement programs. It further recommended that a bipartisan working group develop a detailed proposal

⁹ House Bill 487, Section 5709.084, available at <http://bit.ly/PDgG7A>. The language in the bill covers a convention center owned by a convention facilities authority in a county with more than 1 million in population. The Columbus center fits that definition (the General Assembly already exempted the Cleveland convention center now under construction in a bill approved two years ago).

¹⁰ Phil Cummins, Ohio Legislative Service Commission, Fiscal Note & Local Impact Statement, Am. Sub. H.B. 508 of the 129th G.A., As Enacted, May 24, 2012, available at <http://www.lsc.state.oh.us/fiscal/fiscalnotes/129ga/hb0508en.pdf>. The LSC write-up also noted that the legislation would cover Lorain, based on the 2000 population of that county.

¹¹ *Ibid.*, p. 7

¹² HB 18 is available at <http://bit.ly/MKZVsd>. The law also requires that the employer's payroll increases, and that the grant be used for the acquisition, construction, enlargement, improvement, or equipment of property, structures, equipment, and facilities used by the employer in business at the vacant commercial space occupied by the employer.

¹³ Botomogno, Jean J., Ohio Legislative Service Commission, Fiscal Note and Local Impact Statement, Sub. H.B. 18 of the 129th G.A., April 18, 2012, available at <http://www.lsc.state.oh.us/fiscal/fiscalnotes/129ga/hb0018en.pdf>

to reform local property tax incentives.¹⁴ The reform has never occurred, and instead the program has simply been extended.

- 6) **An extension of a sales-tax exemption for the direct-marketing industry.** Also in HB 487, the General Assembly extended a sales-tax exemption to cover computers, telephones and other equipment used mostly to accept orders for direct-marketing retail sales.¹⁵ Previously, such equipment had to be purchased by a direct-marketing vendor to qualify for the exemption; now, it does not. This duplicated language that had been approved by the Senate in SB 263, but that was still under consideration in the House. The Home Shopping Network, which has an affiliate that operates a call center in Ohio for several HSN brands and had expected to qualify for the existing exemption, advocated for the change. An attorney testifying on its behalf before the House Ways & Means Committee argued that the change would clarify that the affiliate is eligible for the exemption, and restore the original intent of the law to incentivize the growth of the direct marketing industry in Ohio.¹⁶ However, instead of writing such a change narrowly to apply only to affiliates of a single company, the bill would allow the exemption to apply to purchases by any company providing such service to a direct marketer. In addition, it is retroactive, applying to such purchases over the past four years. The LSC was unable to estimate the revenue loss from the measure.¹⁷ However, including the required refunds, the taxation department estimated the potential state General Revenue Fund loss at \$2.6 million, with corresponding losses to local governments and transit authorities of \$600,000.¹⁸ As Jon Honeck of the Center for Community Solutions said in testimony before the committee, this one situation could be addressed with specific language, without expanding the exemption “to cover many purchases that are currently taxable.”¹⁹
- 7) **Expansion of the motion-picture tax credit.** The legislature expanded this credit, created in 2009, from \$20 million per biennium to \$40 million per biennium.²⁰ This refundable credit against the income tax or corporate franchise tax is a percentage of Ohio-sourced expenditures for goods, services and payroll – 25 percent of goods and services, and 35 percent of payroll of Ohio residents. A recent study by Candi Clouse at Cleveland State University’s Maxine Goodman Levin College of Urban Affairs found that each dollar Ohio spends on the motion picture tax credit results in \$1.20 to the economy, “making this a positive program for the state

¹⁴ Ohio Department of Development, Ohio Economic Development Incentive Study, May 4, 2009, p. 40, available at <http://development.ohio.gov/DepartmentReports/Reports/IncentiveStudy.pdf>

¹⁵ House Bill 487, Section 5739.02 (35)(b)

¹⁶ Gongwer News Service, House Committee Hearings, Ways & Means, Volume #81, Report #90, Wednesday, May 9, 2012.

¹⁷ In its fiscal note on the original bill, the LSC said it had been “unable, from publicly available data, to determine the current value of purchases that may be subject to the proposed exemption. In addition, it is possible that certain purchases of telecommunications equipment by persons not involved in direct marketing, or for purposes other than to accept orders for direct marketing retail sales, may also become tax-exempt as a consequence of S.B. 263.” Jean J. Botomogno, Ohio Legislative Service Commission, Fiscal Note & Local Impact Statement, S.B. 263 of the 129th G.A., As Passed by the Senate, March 5, 2012, available at <http://www.lsc.state.oh.us/fiscal/fiscalnotes/129ga/sb0263sp.pdf>

¹⁸ Quoted in Legislative Service Commission, Comparison Document, House Bill 487, p. 275, available at <http://www.lsc.state.oh.us/fiscal/mbr129/enacted/comparedoc-hb487-en.pdf>.

¹⁹ Honeck, Jon, The Center for Community Solutions, Testimony on Senate Bill 263, House Ways & Means Committee, May 9, 2012

²⁰ The LSC estimated a loss of General Revenue Fund revenues of \$19.2 million per biennium beginning with FY 2014, with some loss possible this fiscal year. This takes into account an estimated \$50,000 a year in revenue from application fees, and a revenue loss to local government funds of no more than an average \$400,000 a year starting in FY14. See Cummins op. cit., pp. 8-9.

to pursue.²¹ However, it is clear that the credit doesn't come close to paying for itself, in that state and local tax revenue from the film production is far smaller than the credits given out.²² Since Ohio must run a balanced budget, the reduction in state revenue from this gap means that government spending must be reduced – with consequent negative effects on the economy. This does not appear to have been taken into account in the CSU study. The study assumes as well that all 27 projects that received the tax credits during the period it reviewed would not have been shot in the state but for the tax credit.²³ For these reasons, the report may overstate the economic benefits for Ohio. A major question with these credits is whether they generate a local motion-picture industry or if they simply require indefinite continuation of state subsidies to bring in an out-of-town industry.²⁴

8) **Exemption for specialized insurance companies from the Commercial Activity Tax.**

Insurance companies that arrange high-risk insurance through arms-length transactions and pay a 5 percent premium tax were exempted from the CAT. This exemption, backed by Cincinnati Insurance Companies, mirrors how other insurance companies are treated and doesn't represent special treatment.²⁵ However, an attempt by the Kasich administration to close an unrelated potential loophole that benefits other insurance companies failed (see below).

9) **An existing tax exemption was extended for certain cultural centers.** This exemption applies if a cultural center's property is a historic structure under renovation and the previously tax-exempt property is conveyed to a nonpublic, noncharitable entity that contracts to have renovations performed, and the property is at least partially owned by a 501(c)(3) federally tax-exempt organization.²⁶ This, of course, is a highly specific exemption, which the public cannot evaluate without more information. Together with others like the one for "qualified financial institutions" cited above, it underlines how helpful it would be if the beneficiaries of such legislation were disclosed.

Some efforts to stop, close loopholes

There have been some exceptions this year to the continuing proliferation and expansion of tax expenditures. Gov. Kasich vetoed a tax break approved by the General Assembly that would have allowed companies to avoid the sales tax on purchases of property and services used for research on aircraft and other aerospace-vehicles.²⁷ And one tax loophole was closed: Until now, the buyer of a

²¹ Clouse, Candi, Center for Economic Development, Maxine Goodman Levin College of Urban Affairs, Cleveland State University, "Analysis and Economic Impact of the Film Industry in Northeast Ohio and Ohio," March 2012, available at <http://bit.ly/NhvPxk>.

²² According to the input-out model Clouse used for her study, production of 27 films generated \$5.9 million in state and local taxes, compared to an estimated \$28.6 million given out in credits, adjusted for inflation.

²³ It says that, "It is very likely that, of the 27 projects that received a tax credit, at least the 19 major motion pictures filmed in the state in the last three years were shot here because of the credit." The report cites the 37 states that offered incentive programs for the film industry as of last year, worth a total of \$1.3 billion. Ibid, p. 9

²⁴ See, for instance, Tannenwald, Robert, "State Film Subsidies: Not Much Bang For Too Many Bucks," Center on Budget & Policy Priorities, Updated Dec.9, 2010, available at <http://www.cbpp.org/cms/index.cfm?fa=view&id=3326>.

²⁵ The LSC estimated the annual reduction in revenue of this provision at up to \$1.3 million. See Cummins, op. cit., p. 6

²⁶ The LSC did not specify, but said that it may "result in loss of revenue to units of local government from the tax-exempt real property." LSC, Comparison Document, (Including Both Language & Appropriation Changes), House Bill 487, 129th General Assembly, Mid-Biennium Review (FY 2012-FY 2013), June 13, 2012, p. 262, available at <http://www.lsc.state.oh.us/fiscal/mbr129/enacted/comparedoc-hb487-en.pdf>.

²⁷ "Aerospace is a valued industry in Ohio but there is no justification for granting this specific industry such a broad tax exemption for its research and development efforts," Gov. Kasich said in his veto statement. "Other industries conducting research and development in Ohio may claim sales tax exemptions only for purchases of capitalized equipment and it would be inconsistent to go beyond that in such a broad way for one particular industry and not others. There, the veto of

boat, plane, motor vehicle or other recreational property could avoid paying the sales tax if the transaction was structured as the sale of ownership in a “pass-through entity” like a limited liability company. Now, the ownership transfer of such a company is taxable when its sole assets are such recreational property used primarily by the entity’s owners.²⁸

Gov. Kasich’s only major effort to eliminate loopholes came with his proposal this year to create a new Financial Institutions Tax, replacing existing taxes for banks and other entities. The existing taxes allow big, multistate banks to legally avoid what they would otherwise pay.²⁹ However, the proposal would give all of the money saved back to banks in lower rates – and has been modified by the House so that it now would create new exemptions and credits.³⁰ The bill now is before a Senate committee.

The treatment of one loophole involving the Commercial Activity Tax and insurance companies is instructive. When the CAT was established in 2005, insurance companies, which pay separate premium taxes, were exempted. However, as Tax Commissioner Joseph Testa said in testimony earlier this year, “Some insurance companies are asserting that their affiliates are also exempt from payment of the CAT, with the unintended consequence that these non-insurance affiliates, such as restaurants and movie theaters, pay no CAT, providing an unfair advantage over their competitors.”³¹ The taxation department contested their interpretation and proposed language clarifying that the CAT exemption only applies to insurance affiliates engaged in the business of insurance.³² Some of these insurance affiliates have filed refund claims for CAT they have paid, while others have not paid the tax, have been assessed by the taxation department, and are appealing the assessments.

When the House approved the bill creating a new Financial Institutions Tax and sent it to the Senate, it created an additional loophole. As it stands now, the bill would provide an amnesty for insurance affiliates that haven’t been paying the CAT, and would allow those that have already paid to file for refunds. In addition, since these affiliates would not be subject to the CAT until Jan. 1, 2014, they could take additional steps such as restructuring their businesses to avoid more tax until then. In other

this item is in the public interest.” State of Ohio, Executive Department, Office of the Governor, Veto Messages, Statement of the Reasons for the Veto of Items in Amended Substitute House Bill 487, June 11, 2012, Item 4, available at <http://governor.ohio.gov/docs/VetoMessageAmSubHB487.pdf>

²⁸ House Bill 508, Section 5739.01. This clampdown likely will cut tax losses by less than \$1 million a year. Some other provisions in HB 508 could result in very modest new revenue on a state or local basis (e.g. authorizing the Department of Taxation to impose a \$50 penalty on declined or dishonored electronic payments; allowing additional property tax millage to be approved by voters for major metropolitan zoos, and imposing a penalty of up to \$1,000 for distributing tobacco products without having a distributor's license, and requiring any person doing so to obtain a distributor's license and to pay the annual \$1,000 license fee for each location where the person acts as a distributor).

²⁹ See Joseph Testa, Tax Commissioner, Testimony on Tax Provisions of House Bill 487, House Ways & Means Committee, March 21, 2012, and Zach Schiller, “Bank tax cuts loopholes, reduces rates: Proposal also provides unneeded help to big banks,” Policy Matters Ohio, April 12, 2012, available at www.policymattersohio.org/bank-tax-april2012

³⁰ Schiller, Zach, “The Bank Tax Shuffle: House weakens HB 510, adds exemptions,” Policy Matters Ohio, June 12, 2012, available at www.policymattersohio.org/bank-tax-jun2012.

³¹ Tax Commissioner Joseph Testa, Testimony on Tax Provisions of House Bill 487, House Ways & Means Committee, March 21, 2012, p. 9

³² This involves Ohio Revised Code Section 5751.01(E)(8), which says the CAT does not exclude an entity “directly or indirectly owned by one or more insurance companies” paying insurance premiums taxes. See also Legislative Service Commission, Comparison Document, As Introduced, HB 487 of the 129th General Assembly, p. 94, which noted that there would be no fiscal effect of the proposed clarification because it “codifies existing departmental practice.”

words, the bill would encourage new tax avoidance. The Taxation Department has estimated there could be a one-time cost of \$15 million to \$20 million.³³

New credits proposed

During the current session of the General Assembly, dozens of bills proposing additional tax credits have been introduced. These range from one that would establish tax credits for buyers of new homes to another that would create a five-year income-tax exemption for those obtaining college degrees or journeyman status and work in Ohio. Many of these measures, of course, will go nowhere. Among those to watch in the lame-duck legislative session that will follow the election are:

- A bill approved by the Senate (Senate Bill 139) would allow employers who use Professional Employer Organizations (PEOs) to count their “shared” employees in calculating tax or economic incentives. “The provision thus expands the definition of “employees” to include contracted employees in the form of shared employees, possibly increasing the number of employees that would qualify employers for credits such as the job creation tax credit,” the LSC wrote in a fiscal note on the bill.³⁴ “The result is that the bill potentially increases the state revenue loss from various tax incentives.” (Another bill that was introduced last summer in the Senate, which has not advanced, would allow taxpayers to count workers employed through a temporary or professional employment agency toward the payroll and income tax withholding requirements of the job creation and job retention tax credits.)³⁵
- House Bill 511, which includes a major expansion of the Ohio Capital Fund, a state program that supports the issuance of debt for venture capital investment through a guarantee of tax credits (the credits would only be issued if the program does not pay for itself; this is not the case now). The bill would expand Ohio’s possible liability by \$170 million, to \$550 million, even though a number of those companies that have received funding have not met the requirement that half the money be invested in Ohio.³⁶ The bill has been approved by the House and awaits Senate action.
- The proposed reinstatement of a sales-tax exemption for investment metal bullion and investment coins. This is sometimes known as the Noe amendment because coin dealer Tom Noe, convicted in the Coingate scandal for engaging in a pattern of corruption in his management of Ohio’s \$50 million rare-coin fund investment with the Bureau of Workers’ Compensation, helped win its approval in the General Assembly in 1989. The exemption was repealed in 2005. The House Ways & Means Committee held a hearing on the bill in May. Honeck of the Center for Community Solutions noted that reinstating the exemption would mostly help large-scale speculators, raise questions about whether other collectibles should be exempted, and would have limited benefit for Ohio’s economy. “At a time when the state budget remains tight, more exemptions to the sales tax will reduce funding to the detriment of

³³ Joseph W. Testa, Tax Commissioner, letter to Thomas E. Niehaus, Senate President, May 21, 2012, p. 5.

³⁴ The Legislative Service Commission notes that, “A PEO provides payroll, human resources, workers’ compensation, and employee benefits administration services to other companies, referred to as “client companies.” This is generally accomplished by hiring a client company’s employees and then leasing those employees back to their original employer; employees that are leased back to their original employer are referred to as “shared employees.”” Brian Hoffmeister, Ohio Legislative Service Commission, Fiscal Note & Local Impact Statement, Sub. S.B. 139 of the 129th G.A., As Passed by the Senate, Dec. 1, 2011, available at <http://www.lsc.state.oh.us/fiscal/fiscalnotes/129ga/sb0139sp.pdf>

³⁵ Senate Bill 206, available at http://www.legislature.state.oh.us/bills.cfm?ID=129_SB_206

³⁶ For more information on this bill, see Policy Matters Ohio’s May, 2012, testimony before the House Ways & Means Committee at <http://www.policymattersohio.org/testimony-hb511-may2012>

state services which are already inadequate in many areas,” Honeck said.³⁷ In its fiscal note on the bill, the LSC estimated annual sales and use tax losses to the state from the bill between \$5.7 million and \$7.6 million, and local government losses of \$1.4 million to \$1.8 million.³⁸

Questionable impact of tax credits

Many of the tax-credit bills described in this brief are intended to spur economic development. But tax levels are not the major determinant in economic success.³⁹ As Billy Hamilton, consultant and retired deputy comptroller for the Texas Office of the Comptroller of Public Accounts, said in a recent column, state and local tax incentives are “in effect, spending programs in which the state is investing taxpayer dollars to produce jobs and investment. Among other things, that means dollars poured into incentives aren’t available for other state and local programs with economic benefits like public education and transportation.”⁴⁰

Too frequently, tax incentives reward companies for actions they would have taken anyway. Peter Fisher, an emeritus professor of urban and regional planning at the University of Iowa and research director of the Iowa Policy Project, summed up in a recent policy brief: “Business tax breaks are an expensive and inefficient way to attempt to stimulate a state economy. Because of the small effect of tax breaks on business costs, and the much larger importance of other production costs and location considerations, tax breaks will have little if any positive effect on private sector employment. In fact, the revenue losses may well produce immediate public-sector job losses.”⁴¹

Despite the growing attention that has been paid to Ohio tax expenditures, state policymakers have been creating questionable new ones. Legislators and Gov. Kasich should reverse the trend – not to reward Ohio’s richest with an income-tax cut, but to restore services and make the tax code fair and level for all Ohioans.

The author would like to acknowledge Adam McKenzie for the research help he provided for this brief.

³⁷ Honeck, Jon, The Center for Community Solutions, “Testimony on House Bill 394,” House Ways & Means Committee, May 9, 2012

³⁸ Botomogno, Jean, Ohio Legislative Service Commission, Fiscal Note & Local Impact Statement, H.B. 394 of the 129th G.A., As Introduced, May 8, 2012, 54 available at <http://www.lsc.state.oh.us/fiscal/fiscalnotes/129ga/hb0394in.pdf>

³⁹ For instance, see Robert Lynch, “Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development,” Economic Policy Institute, 2004, and Paul W. Bauer and Mark E. Schweitzer, “Paths to Prosperity: Knowledge is Key for Fourth District States,” Economic Commentary, Federal Reserve Bank of Cleveland, August 15, 2006. Available at <http://bit.ly/PDni5J>. See also: <http://bit.ly/RxUqSM>. Federal Reserve Bank of Cleveland, Annual Report 2005, “Altered States: A Perspective on 75 Years of State Income Growth. A more recent analysis confirms the lack of significance of tax levels in state economic performance: Peter Fisher, “The Doctor Is Out to Lunch: ALEC’s Recommendations Wrong Prescription for State Prosperity,” The Iowa Policy Project, July 24, 2012, available at <http://bit.ly/Nzo8QP>.

⁴⁰ Hamilton, Billy, “Pinching and Hitting: Can State Tax Incentives Be Improved? State Tax Notes, State Tax Merry-Go-Round, June 25, 2012.

⁴¹ Fisher, Peter S., “Corporate Taxes and State Economic Growth,” Iowa Fiscal Partnership, Revised February 2012, p. 7, available at <http://www.iowafiscal.org/2011docs/110209-IFP-corpntaxes.pdf>