



November 4, 2019

The Honorable Catherine Ingram
Ohio House of Representatives
Riffe Tower, 77 S. High St, 10th Floor
Columbus, OH 43215

Regarding: Cost of business incentive tax credits to the state over time

Dear Representative Ingram,

Thank you for your question on the cost of economic development tax credits to the state of Ohio over time. The Ohio Department of Taxation estimates that in total, the state will forgo \$9.1 billion on tax expenditures (tax breaks) in 2020 and \$9.8 billion in 2021. Over the course of the two-year budget period, 64% will go to businesses or economic development, costing an estimated \$12.2 billion.

House Bill 49 of the 132nd General Assembly required the operating budget to include detailed estimates of "business incentive" tax credits (similar to SB 39): the Job Creation Tax Credit, Job Retention Tax Credit, Historic Preservation Tax Credit, Motion Picture Tax Credit, New Markets Tax Credit, Research and Development Credit, the InvestOhio small business investment tax credit and added to the list is the Ohio Rural Business tax credit, approved in the corrections bill (Senate Bill 8 of the 132nd General Assembly). These tax credits can be taken over several years, so the estimates show (a) the amount of credits that may be authorized in each year of the biennium, (b) the amount of credits that may be claimed in each year of the biennium, and (c) the total amount of authorized credits that could be claimed in future biennia (Table 1).

Table 1
Business tax incentive programs estimated in HB 166 of the 133d General Assembly (shown in millions of dollars)

Tax Credit	Authorized		Issued/claimed		Outstanding
	FY 2020	FY 2021	FY 2020	FY 2021	End of the 2020-21 biennium
Job Creation Tax Credit*	\$105.0	\$105.0	\$109.0	\$105.0	\$700.0
Job Retention Tax Credit	\$0.0	\$0.0	\$44.8	\$43.0	\$153.2
Historic Preservation Tax Credit	\$60.0	\$60.0	\$65.0	\$70.0	\$175.0
Motion Picture Tax	\$40.0	\$40.0	\$50.0	\$45.0	\$95.0
New Markets Tax Credit	\$10.0	\$10.0	\$9.3	\$9.7	\$48.0
R&D Loan Tax Credit	\$1.5	\$1.5	\$2.6	\$2.1	\$12.5
InvestOhio Tax Credit	\$4.0	\$3.5	\$2.5	\$2.0	\$4.5
Ohio Rural Business	\$0.0	\$0.0	\$0.0	\$0.0	\$45.0
Total	\$220.5	\$220.0	\$283.2	\$276.8	\$1,233.2

Source: Policy Matters Ohio based on House Bill 166 of the 133d General Assembly.

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Table 1 shows that at the time the executive budget was presented in February of 2019, the Ohio Department of Taxation estimated that over the 2020-21 budget period \$440.5 million would be authorized for expenditure under the eight business incentive programs. The credits may be utilized in more than one year, so the amount to be claimed during the biennium is also shown; this will be an estimated \$560 million. At the end of the biennium, \$1.2 billion in tax credits will remain outstanding, to be claimed in future years.

Table 2 shows the revenues the state has foregone over time in these eight programs. The state did not publish the actual cost of these credits prior to 2008 – just the estimates – so we cannot trace them back further. Between 2008 and 2019, these eight credits cost the state \$1.9 billion. Altogether, they grew by 188% between 2008 and 2019.

Table 2									
Tax credits included in the executive budget over time (shown in millions of dollars)									
Fiscal year	Job Creation Tax Credit	Job Retention Tax Credit	Historic Preservation Tax Credit	Motion Picture Tax Credit	New Markets Tax Credit	R&D Loan Tax Credit	InvestOhio Tax Credit	Ohio Rural Business	Total
2008	\$87.7	\$2.9	\$0.0	\$0.0	\$0.0	\$3.0	\$0.0	\$0.0	\$93.6
2009	\$92.0	\$9.3	\$7.1	\$0.0	\$0.0	\$4.0	\$0.0	\$0.0	\$112.4
2010	\$53.5	\$4.5	\$24.7	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$82.7
2011	\$54.6	\$11.5	\$40.6	\$8.5	\$0.0	\$0.0	\$0.0	\$0.0	\$115.2
2012	\$38.0	\$8.3	\$27.0	\$20.3	\$0.0	\$0.0	\$0.0	\$0.0	\$93.6
2013	\$38.7	\$12.6	\$30.1	\$19.3	\$1.8	\$0.0	\$0.0	\$0.0	\$102.5
2014	\$82.7	\$24.2	\$60.7	\$19.7	\$0.0	\$0.9	\$0.0	\$0.0	\$127.5
2015	\$83.8	\$29.6	\$64.6	\$19.3	\$1.0	\$1.0	\$0.0	\$0.0	\$199.3
2016	\$104.4	\$52.0	\$59.6	\$7.8	\$2.8	\$1.3	\$5.6	\$0.0	\$233.5
2017	\$108.6	\$57.7	\$57.9	\$21.1	\$3.6	\$1.6	\$7.2	\$0.0	\$257.7
2018	\$101.4	\$47.6	\$45.2	\$15.8	\$6.5	\$0.0	\$2.2	\$0.0	\$218.7
2019	\$104.3	\$48.7	\$67.7	\$30.0	\$8.0	\$0.0	\$1.9	\$0.0	\$260.6
Total	\$949.7	\$308.9	\$485.2	\$161.8	\$23.7	\$11.8	\$16.9	\$0.0	\$1,897.3

Source: Policy Matters Ohio based on House Bill 166 of the 133d General Assembly Table 1 shows estimates for 2019, 2020 and 2021, and the methodology for determining foregone revenue may not match that for estimates shown in Table 1.

This shows just a portion of the business incentives. In addition to the eight programs shown here and part of mandated reporting in the executive budget, other business programs that have been in effect at some point between 2008 and 2019 include the increased research and development tax credit, the tax credit for venture capital loan loss, tax credit for net operating losses, tax credit for small brewer's, the ethanol plant investment credit and the technology investment tax credit.

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Table 2 does not include the new Opportunity Zone Tax Credit, passed in the main operating budget for 2020-21, which permits the state to authorize \$50 million in tax credits for projects undertaken in federal Opportunity Zones during each two-year budget period. Nor does the table show numerous other tax expenditures that benefit businesses that are not tax credits.

Table 1 looks forward and shows there will be over a half billion dollars in tax credits claimed in 2020 and 2021, with another \$1.2 billion in tax credits already authorized and expected to be claimed in following years. Table 2 looks backward over time and shows the \$1.9 million in revenues foregone to eight business tax credits between 2008 and 2019.

This is a huge obligation of state resources devoted to special interests. However, these credits are only a share – a rather minor share, on an annual basis, of Ohio’s annual cost in revenue foregone to tax breaks, which will rise to \$9.4 billion a year by 2021. When lawmakers say there is not enough money to fix school funding, help more struggling families with the high cost of childcare, or pay for the state’s share of Medicaid for people who cannot afford health insurance, it must be understood in the context of lavish spending through the tax code on tax breaks and tax credits like SB 39, which have grown explosively over the past decade.

The number of tax expenditures under consideration by the 133d General Assembly is breathtaking even in the context of recent years’ rapid growth of spending through the tax code. The value of revenue lost to tax breaks will grow by \$1.3 billion in 2020-21 compared to the prior two-year budget period and will have grown by 18% (adjusted for inflation) over the decade between 2012 and 2021, adjusted for inflation. The 133d General Assembly has introduced and considered, or is currently considering, 30 new tax breaks – and there were more in House Bill 166, the 2020-21 budget bill.

As we noted in our testimony, a process for review of tax expenditures was passed unanimously by both houses of the General Assembly in 2016, but the process in the first round of review was [weak](#): no changes or modifications were recommended for the \$5.5 billion in tax breaks reviewed, and members [suggested](#) strengthening oversight. Since my testimony, a chair and members of the committee for the current round of review have finally been named. However, as you have probably seen, the committee is not expected to begin work till spring. This gives it very little time to do its work, because next year, an election year, may result in early adjournment prior to elections. Enacting new tax breaks in the context of a lack of an adequate review process is fiscally irresponsible.

Thank you for your question. I would be happy to provide additional detail.

Sincerely,

A handwritten signature in black ink, appearing to read "Wendy Patton".

Wendy Patton
Senior Project Director

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E-copy: The Honorable Paul Zeltwanger, Chair, House Economic and Workforce Development Committee

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