Policy Matters Ohio

PRESS RELEASE
MARCH 22, 2018

Contact: Wendy Patton
wpatton@policymattersohio.org
614.221.4504

Will Ohio tax breaks keep multiplying?

Bills for new ones proliferate, potentially costing tens of millions a year

Ohio legislators are considering a variety of new tax breaks that would cost the state tens of millions in annual revenues and have recently ratified others. Yet a new legislative committee that is supposed to review Ohio's $9 billion-plus in annual tax breaks is only just getting under way.

"Before approving new tax breaks for oil and gas companies, insurers, movie producers and others, the General Assembly should make sure that its mechanism for reviewing existing ones is doing its job," said Wendy Patton, senior project director at Policy Matters Ohio. "Adding new special-interest breaks is ill-conceived when we've barely started looking at the tax exemptions and credits we have now. While legislators think about giving away tens of millions for new business tax breaks, they should consider whether we have the money to pay for them, and whether the funds would be better spent educating young Ohioans, cutting our high infant-mortality rate, or fighting the opioid epidemic."

The General Assembly is considering new or expanded tax breaks including:

- **One that would increase the tax credit available for film production from $40 million a year to $100 million.** House Bill 525 also would expand the credit to cover certain Broadway theatrical productions. Ohio's film tax credit is both refundable and transferable, which means that much of the credit benefits unrelated entities who buy it for the tax break. This lines the pockets of financiers, brokers and insurers. The credit does not pay for itself. The bill would boost the subsidy for this one sector to a level that equals the Job Creation Tax Credit, the state's biggest economic development credit, serving all sectors.
- **A new tax break that would allow insurance companies to receive credits for 10 percent of "transformational" mixed-use developments of more than $400 million.** It's impossible to know how many projects might qualify, and the cost to the state won't be immediate, since it will come once the projects are completed. However, House Bill 469 contains just a list of criteria the state should use in determining whether a project is eligible; no specific economic or community benefits must be provided. Yet it stipulates that projects must include "at least one building that is twenty or more stories in height." If the bill is really aimed at supporting a particular development, as this provision suggests, legislators should have considered it along with other projects as part of the state's capital bill.
- **An expansion of the sales-tax exemption for property used in oil and gas production.** Though it notes that "the effect of the scope of the exemption is not clearly apparent," the Legislative Service Commission has estimated this would cost the state, local governments and libraries more than $50 million in Fiscal Year 2019

because it is retroactive to 2010, and $5.1 million a year after that. This is special-interest legislation granting new tax benefits to an industry that already pays a fraction of what it should in taxes; note that in the 2018-19 budget bill, the General Assembly once again did not embrace Governor Kasich's recommendation for a conventional severance tax.

The legislature recently approved tax breaks expanding the income-tax deduction for business owners to cover compensation they receive through independent payroll companies (cost: up to $2 million a year, plus up to $10 million for refunds from earlier years' taxes); a $45 million rural jobs credit, when similar programs have been expensive and unproductive in other states (annual cost: up to $11.25 million the first year credits are claimed, and possibly more than $15 million in subsequent years) and a sales-tax exemption for prescription eyeglasses (annual cost of $23.2 million starting in Fiscal Year 2020).

The new Tax Expenditure Review Committee is responsible for reviewing all of the state's 129 tax exemptions, credits and deductions. While it has eight years to go over them, it was supposed to start last June and its first report is due July 1. It met once almost six months ago and only last week scheduled its initial hearings, the first of which will focus on five sales-tax credits. The committee has not publicly outlined how it will perform its mission, beyond saying that witnesses at the hearings respond to some of the evaluation criteria in the law that created the committee.

Rather than new tax breaks for specific industries and development projects, Ohio needs investments that really help our communities, like fully-funded schools, affordable colleges and restoration of support for local governments.

###

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