Policy Matters Ohio

PRESS RELEASE

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Ohio tax breaks bulge

Report shows 15 new breaks, even as review committee was shut down

Ohio tax breaks will soon add up to more than $11 billion a year, more than the state spends in general revenue on primary and secondary education, according to the tax expenditure report that is part of Gov. Mike DeWine's proposed budget. If they didn't exist, the state would have 37% more in annual revenue.

"Tax breaks are ballooning with little oversight," said Zach Schiller, Policy Matters Ohio research director. "The General Assembly should restore a tax expenditure review committee, eliminated in the state budget two years ago, and rein in unproductive tax breaks that reinforce inequality in our state."

Fifteen new exemptions, credits or deductions have been created in the past two years, and the overall number grew from 138 to 154 (one existing income-tax deduction for disability and survivor benefits was split in two due to the availability of better data, according to the taxation department). Overall, these new tax breaks will cost a total of more than $450 million to the General Revenue Fund between Fiscal Years 2024 and 2025. The largest new ones include:

- The credit for investment in so-called transformational mixed-use development projects, worth $135.3 million over the biennium. Though some changes were made in the final bill, this credit lacks sufficient safeguards.
- One of the various incentives for Intel Corp., covering purchases of goods used at its semiconductor wafer manufacturing site in New Albany, which is estimated to cost $150.3 million over the two years.
- The new credit for contributions to scholarships for private education, expected to cost $101 million. (See this testimony on an earlier version of this credit, a diversion of state money to private schools that excludes the poorest Ohioans and lacks guardrails.)

Other new tax breaks include one for home schooling expenses and the reinstatement — again — of the sales-tax exemption for investment coins and metal bullion, first repealed during a scandal in 2005. (This exemption was previously known as the Noe amendment because coin dealer Tom Noe, convicted in the Coingate scandal, helped win its original approval in the General Assembly in 1989.)

The tax expenditure report is available here. Among the 154 tax breaks covered in the report are three new ones for Intel or its suppliers, as well as two others that were expanded to grant Intel greater exclusions. Intel will primarily and overwhelmingly benefit from the tax loopholes, with only a small share, about $0.7

million, estimated for suppliers. One of the expanded exemptions, a sales tax break for Intel's purchases of building and construction materials, is valued at $131.1 million over the next two fiscal years, meaning four new or expanded tax breaks add up to $297.7 million over that period. The tax department found the value of a fifth tax break for the company, a sales-tax exemption for equipment used in research and development property, to be "indeterminate."

The report excludes some other tax breaks recently approved by the General Assembly because they don't fit the agency's definition of tax expenditures. This includes the sales-tax exemption for purchases of employment services and employment placement services that was estimated to cost the state, counties and transit agencies $181.9 million in Fiscal Year 2023 when it was approved in the last budget bill.

Governor DeWine's budget outlines additional detail on 10 business incentive tax credits. It reports that businesses will claim more than $900 million across the 10 different tax credits during the upcoming two-year budget — and that at the end of that period, on June 30, 2025, more than $1.4 billion of such credits will be outstanding. The Job Creation Tax Credit ($705 million) and the Transformational Mixed-Use Development Credit ($255.2 million) will lead the way with the amounts outstanding in 2025.

While some tax breaks are well-directed, such as the Earned Income Tax Credit, which provides needed aid to low- and moderate-income working families, a host of them should be repealed or cut back. The business income deduction, also known as the LLC loophole, disproportionately rewards a small number of high-income individuals and costs an estimated $1 billion a year with negligible economic impact. (The tax expenditure report says this is worth $744.3 million this fiscal year because it excludes a portion of the tax break in its analysis.) Owners of data centers such as Facebook, Amazon and Google are receiving a sales-tax exemption worth more than $250 million over two years, though these facilities employ few workers. Suppliers to big drug distributors including Cardinal Health don't have to pay much or any Commercial Activity Tax, though this was exposed as a tax dodge by the Kasich Administration's budget director six years ago. Big retailers like Wal-Mart and Target are profiting from the discount on sales tax they collect, as then-taxation department commissioner Joe Testa testified years ago.

These and other tax breaks need to be reined in. A new tax expenditure review committee should be established, with staffing to do analysis. Instead, the governor proposes to add to the motion picture tax credit, though the National Council of State Legislatures noted in a report last year that, "The states that have performed evaluations of their film tax credit programs have commonly found that, despite positive anecdotal evidence that accompanies big film projects, such programs do not provide a substantial return on investment and, if economic development is the goal, other policy avenues might be more productive." Governor DeWine also proposes expensive new tax deductions that do nothing for families who most need support and provide only modest benefits to most others; these include his child tax deduction and a deduction for homeownership savings accounts.

“Some tax breaks, such as Governor DeWine’s proposed low-income housing tax credit, can be beneficial,” Schiller said. “But the General Assembly should set up a mechanism to rigorously scrutinize the tax breaks we have and cut back on unproductive exemptions and deductions that are proliferating in our tax code.”

New tax expenditures (GRF revenue forgone in millions of dollars)

Tax		2024	2025
Sales			
	Sales of property to a megaproject operator for use at a semiconductor wafer manufacturing plant	$86.2	$64.1
	Investment bullion and coins (reenacted in 2021)	$6.1	$6.2
Income			
	Campaign contribution credit (reenacted in 2020)	$2.2	$2.4
	Home instruction credit	$3.1	$3.3
	Credit for donations to scholarship organizations	$50.5	$50.5
	Credit for dependents who attend non-chartered non-public schools	$4.3	$4.3
	15% Credit for wages paid to employee participating in a career technical training program	$2.4	$2.4
	Beginning farmer management credit		$1.2
	Credit for sale or rental of agricultural assets to a beginning farmer	$1.8	$2.7
Financial Institutions			
	De novo bank tax exemption		
Commercial Activity			
	Exclusion for sales of certain new capital equipment for semiconductor megaprojects		$14.8
	Exclusion for mortgage backed securities	$5.1	$5.7
	Exclusion for receipts of a megaproject supplier		
	Exclusion for BWC dividend payments		
Insurance Premium			
	Credit for contributions to transformational mixed-use development projects	$48.3	$87.0
Total		$210.0	$244.6

Numbers reflect revenue forgone from the General Revenue Fund. Amount is less than a million dollars where none is listed.

Table: Policy Matters Ohio • Source: Ohio Department of Taxation, Tax Expenditure Report, The State of Ohio Executive Budget for Fiscal Years 2024-2025 • Created with Datawrapper