Policy Matters Ohio

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Review of tax breaks should be based on rigorous evaluation—but will that happen?

Over the next five weeks, Ohio's new legislative committee to review state tax breaks will meet three times to examine 15 tax breaks worth a total of $4.6 billion, nearly half the cost of all state tax breaks combined. State revenue spent on special-interest tax breaks drains resources from the things Ohio needs to prosper and thrive, like public transit, good public schools and programs that protect seniors and people with disabilities. With this in mind, committee members should rigorously evaluate each tax break to determine if it's worth the cost.

However, so far, the committee has not indicated it plans to do so. The efforts of the Tax Expenditure Review Committee will be useful only if it relies on experienced staff – auditors, attorneys, tax policy experts – to provide a thoughtful and detailed evaluation of each tax break and help it decide what should be continued, modified or repealed. Last year, Policy Matters Ohio released a report which provided lawmakers with a blueprint for how to proceed.

"Holding hearings, while a positive step, will not ensure that lawmakers and the public get the information they need to make sound decisions," said Wendy Patton, Policy Matters senior project director. "Some Ohio tax breaks have been around for 80 years. Legislators need key details as basic as the number of tax filers receiving a tax break to understand if the benefit justifies the cost."

Other states provide detailed evaluations for this work. For example:

- Washington State, a leader in tax break oversight, releases an annual overview of all state and local tax expenditures, their impact on beneficiaries, and state revenues by tax and by sector. The analysis conducted by the state Department of Revenue includes a history of tax breaks in animated, easy-to-understand graphics, making the overall system of tax breaks transparent to legislators, local elected officials and the public.
- The Indiana Legislative Services Agency's Incentive Review Team of eight, with the assistance of eight additional analysts named as authors, took a deep dive into business incentives in 2017. They found overall employment growth higher than typical among firms with an "Economic Development for a Growing Economy" (EDGE) incentive.
- The evaluation of a $12 million biotechnology investment credit by the Maryland Department of Budget and Management found the incentive ineffective and recommended improvement through coordination with related programs, better targeting and a reduction of administrative burden.
- California has no regular process for tax incentive review, but produces comprehensive studies on an ad hoc basis. A recent study by the Legislative Analyst's Office raised questions about the economic effectiveness of the $780 million "California Competes" tax credit program and identified harmful economic impacts by creating an unbalanced playing field in some sectors. The evaluation included recommendations for improving the program.
- Virginia's evaluation of the state's sales-tax exemption for non-profits found the majority of tax filers receiving the break were medical, followed by educational institutions. It surveyed the tax break in other states and found that some offered a broad exemption while in others it was limited.

- Texas requires an incidence study of each tax break, which allows lawmakers and the public to understand the number of beneficiaries and their income levels for each tax break.

Ohio’s Tax Incentive Review Committee should follow the example of these states, and require the Legislative Service Comission provide a rigorous analysis of tax breaks. The statute allows for such an analysis, but only at the request of the committee. The statute also outlines criteria the committee may consider, including:

- The number and classes of persons that benefit from the tax expenditure; state and local fiscal effects;
- Public policy objectives and success in meeting those objectives; whether the objectives could be accomplished without the tax expenditure, with less fiscal cost, or by appropriations;
- The extent to which the tax expenditure provides unintended benefits, creates unfair competitive advantage, or has become harmful;
- The extent to which ending the tax expenditure could hurt or help the state's employment and economy;
- The feasibility of modifying a tax expenditure in case recipients do not comply with its terms. Information on each criterion will be provided only if lawmakers ask for it. And to conduct a more far-reaching analysis, it should consider a broader set of criteria (see page 18).

Ohio’s General Assembly has taken a good step in undertaking a review of the tax expenditures in the state code. Legislators enact new tax breaks every year and sometimes repeal them, but many continue, year after year, without review or debate.

“Tax expenditures represent an invisible entitlement that persists over time,” said Patton. “It is the job of the Tax Expenditure Review Committee to bring transparency and accountability to this huge use of state resources.”

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