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Lawmakers should review, reduce some tax breaks before the sirens start

Scrutiny of \$9 billion in tax breaks should not be postponed

State and local governments face soaring needs but dwindling tax collections as the COVID-19 epidemic grinds the economy to a near halt. State lawmakers moved to open up the rainy day fund for possible use and federal lawmakers passed legislation to help, but even these measures are not likely to be enough to ensure funding for essential public health, public safety, emergency and other services.

The Ohio General Assembly should begin taking steps to shore up state finances and those of Ohio's many local governments that deliver critical services. Ohioans who fall ill or are laid off by struggling employers will rely on state and local government for health coverage and emergency services. This year, the state legislature will miss out on \$9 billion in state revenue via tax breaks. Lawmakers created the Tax Expenditure Review Committee (TERC) in 2016 to scrutinize these expenditures. In response to last week's announcement that committee Chair Bill Roemer (R-Richfield) decided to indefinitely postpone the TERC's next meeting, Policy Matters Ohio Senior Project Director Wendy Patton released the following statement:

"It seems likely the Tax Expenditure Review Committee will not meet its statutory deadline of delivering its report by July 1. Instead of putting off the work, committee members should drill down on tax breaks with the explicit goal of recommending reductions until the emergency is over. The six-member TERC can meet via teleconference, with public access, as permitted under Senate Bill 197 approved by the General Assembly last week.

"The committee should meet now. Many tax breaks could be considered for reduction, such as:

- **The \$1 billion deduction known as the LLC Loophole.** During the last state budget process, both the House and the Senate approved cutting this tax break by eliminating the preferential 3% top tax rate it offers wealthy Ohioans. Yet in the final budget, lawmakers preserved that break, which goes only to those with more than \$250,000 in annual business income. It deserves another look.
- **Ohio's vendor discount, which provides a tax break to retailers collecting the sales tax.** The biggest share of this tax break goes to the largest retailers making over \$1 million in annual revenues. Some of these, which make up about 1% of all Ohio retailers, are experiencing record business and profits, unlike many smaller firms that have had to close. The vendor discount they received in 2018 cost the state \$33 million in tax revenues forgone.
- **A break on the Commercial Activity Tax paid by suppliers to big drug distribution centers that do most of their business outside Ohio.** The state is suing drug distributors like Cardinal Health for its role in the opioid epidemic. The Kasich

administration sought to rein in this tax break that benefits Cardinal and other distributors, pointing out that it is used as a tax planning device. This tax break is valued at \$169 million this fiscal year.

“The committee should examine with an eye toward reduction these tax breaks and others that benefit the wealthiest people and businesses, like the one for buyers of time-shares in private jets. For now, Ohioans will need that money for state and local government operations as the pandemic grows and revenues dry up.

“The bill to create the TERC passed unanimously in both Houses. But lawmakers have not lived up to that promise of fiscal prudence. In the first review cycle, members of the TERC lightly examined \$5.5 billion in annual tax breaks and recommended all continue without modification, although fewer than half of the tax breaks reviewed had an advocate show up to testify.

“Lawmakers have not taken seriously the charge to review tax breaks. But in the face of this crisis, it is their duty to find revenues for services people urgently need. Lawmakers should reduce many tax breaks now and direct the revenues to life-saving services delivered by state and local governments across Ohio.”

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