Policy Matters Ohio

EXECUTIVE SUMMARY
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Tax & Budget

TAX BREAKS IN THE STATE BUDGET FOR 2020-2021

WHAT'S IN, WHAT'S AXED, AND WHAT OUGHT TO BE DONE

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The governor's budget presented to the 133d General Assembly included little tax policy. The Ohio House of Representatives added numerous tax provisions in the budget bill, House Bill 166. Some tax breaks were scuttled, others added. As the Senate sets final priorities, we encourage it to concur with much of what the House chopped and eliminate even more. Policy Matters Ohio previously examined other provisions in the House bill that would limit the deduction for business income known as the LLC loophole while cutting income-tax rates and brackets. In this report, we look at a selection of tax provisions relating to special interest tax breaks; cleaning up and clarifying tax treatment of certain industries and taxpayers; addressing social needs with tax breaks; and both expansion of and addition to local tax breaks for corporations and developers.

Policy Matters Ohio agrees with a number of the provisions in the House bill that would clean up the tax code, while opposing others that would create or expand special interest breaks. Altogether, this would generate well over $100 million a year that could be used to invest in Ohio and Ohioans.

The governor's budget proposes and House approved a new Opportunity Zone Investment income-tax credit that would give additional public resources to wealthy owners of capital gains who invest in census tracts designated for deep U.S. subsidy through the federal Opportunity Zone program. The $50 million the state will forgo each two-year period could be better used to help with home ownership and rehabilitation for low-income residents, better public transit and other direct investments that will create opportunity for those who live in these low-income census tracts.

In its budget bill, the House appropriately repealed a number of special interest tax breaks. These include the $40 million-a-year movie tax credit, which does not generate tax revenue to pay for itself; a sales-tax break for wealthy Ohioans who buy time shares in jet aircraft; and a sales-tax exemption for investment in coins and metal bullion, which was reinstated after an earlier repeal and vetoed by then-Governor Kasich, who said: "There is no reason to provide preferential treatment to one class of items and not others that could possibly increase in value, such as art, sports cards, or antiques."

The House bill also would ensure taxes are collected on a variety of goods and services, leveling the playing field for all sellers. These include:

- Collecting sales tax on the full price of hotel rooms sold by travel intermediaries like Priceline and Expedia;

- Ensuring that sales tax already due on online purchases is collected, in line with a U.S. Supreme Court decision last year. This would also extend to sales by Amazon and others of merchandise from others, just as other states are requiring;
- Changing the law to make it crystal clear that Uber and Lyft, which already are supposed to charge sales tax, will do so. Legislators should make sure, though, that terms in the bill don't wind up reducing the price on which tax is paid.

As state dollars for health and human services have been backfilled with federal funds and restricted by stingy budget policies, lawmakers have turned to spending through the tax code to address pressing social needs. The House budget bill would create three new tax credits or exemptions for abating lead hazards at old homes, for companies to hire formerly incarcerated people, and for child care centers that serve children from households that receive public assistance. While each of these is well-intentioned, they are too small, not well-targeted, and their goals would be better achieved through grant programs or other investments.

The House also would expand the manufacturing sales-tax exemption in two different ways, at an annual cost of $30 million. The Tax Expenditure Review Committee (TERC) was established to review Ohio's 134 tax breaks. Instead of such expansions, the General Assembly should appropriate funds to properly staff the TERC and refer proposals like these to that committee to ensure existing tax credits and exemptions are well understood and changes enhance efficiency and effectiveness.

The House bill also includes other provisions that should be scrapped. These include one that would exempt a portion of the value of land subdivided for residential development, but not developed, from the local property tax. This would shift taxes to other homeowners and businesses and could lower property tax revenues available to schools and other jurisdictions. Another provision would allow out-of-state business owners to avoid having state income tax withheld by Ohio companies they own if they agree to pay it themselves directly. This would impose new administrative burdens on the taxation department and could lead to a loss of revenue.

The Senate should avoid creating new special interest tax breaks while concurring with the House in closing loopholes. The additional funds should be invested in Ohio's pressing needs. For example:

- The $40 million the state would gain from closing the movie tax credit could be used in grants for lead abatement in targeted urban and rural neighborhoods throughout the state.
- The $5 million forgone to the tax break for investors in coins and bullion could be used to boost operating revenues for the Ohio Civil Rights Commission to restore education and outreach services, expand investigative staff and offer a hotline for reporting wage theft.
- The $50 million gained from collection of on-line sales tax could replenish the housing trust fund, increase food aid for low-income families and expand adult protective services to safeguard the estimated 105,000 Ohioans struggling with elder abuse across the state.
- The $20 million the state would save through improving taxation of hotel intermediaries could be used to replenish the municipal distribution of the local government fund, eliminated completely in the current budget, easing the strain on hard-pressed local budgets.

This is just a fraction of the needs for investment, but illustrates how elimination of special interest tax breaks can provide public services that can rebuild lives and communities, protect children and elderly, and restore services that thousands need and depend on.