

Tax & Budget

OHIO TAX EXPENDITURES ARE READY FOR REVIEW

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State taxes pay for programs that benefit Ohioans now and in the future: things like roads, schools, transit, making sure our water and air are clean or that we have the resources to deal with a public health crisis like the drug epidemic. Legislators regularly review expenditures made for public services, but not the expenditures made on tax breaks and tax loopholes.

The state of Ohio, like more than two-thirds of the states, reports regularly on tax exemptions, credits and deductions, also known as tax expenditures. But Ohio legislators have not had to review, evaluate and make decisions about these expenditures. This is about to change. House Bill 9 of the 131st General Assembly created Ohio's first "Tax Expenditure Review Committee" to analyze tax breaks in Ohio's tax expenditure report. They have a big job:

- The tax expenditure report for 2018-19 lists 129 items, accounting for \$9.1 billion in revenue foregone in 2018 and \$9.4 billion in 2019.
- Of the 129 items, 32 have a value of less than \$1 million a year.
- Tax expenditures in 2018-19 are forecast to grow by 8.3 percent over the prior budget period, 2016-17. In contrast, taxpayer revenues in the General Revenue Fund will grow by just 2.1 percent during the same time period.
- The sales tax has the most tax expenditures: 56, with a value of \$6.2 billion in 2019, two-thirds of total revenues lost to tax expenditures in that year.
- Tax expenditures for businesses and economic development make up the largest number and greatest value of tax expenditures, accounting for two-thirds of revenues foregone in 2019.
- The largest tax expenditure is an exemption from sales tax for goods purchased to use primarily in manufacturing.
- The new business income deduction, enacted in 2013 and later expanded, has rocketed to near the top of the tax expenditure list in terms of size, growth and growth rate.
- Seven tax expenditures are each expected to be valued at \$50 million more during 2018-19 than they were in 2016-17.



New reporting on some business tax incentives mandated in the 2018-2019 budget bill will further increase tax expenditure transparency. Governor Kasich estimated that by the end of Fiscal Year 2019, there would be \$1.5 billion outstanding in seven business tax credits covered by the new reporting requirement. These are also covered in the Tax Expenditure Report and will be reviewed by the Tax Expenditure Committee.

Members of the new Tax Expenditure Review Committee have been appointed. Critical steps to get off to a good start include meeting (they are already months off schedule); getting staff established for a review; deciding where to start and setting a goal for the initial review; and formalizing both how public input will be received and how broader legislative review will be promoted.

The committee should also consider building upon the business tax-break transparency measure in the current budget to move toward complete, accessible disclosure of all of the state's support for economic development efforts. Some tax breaks should be limited or repealed, such as the business-income deduction. But all can benefit from a substantive review.

Ohio spends more than \$9 billion a year in tax expenditures, more than is allocated to school districts through formula funding and the tangible personal property tax reimbursement. This part of the budget needs and deserves the same scrutiny as the rest of the state's operations. It can be trimmed substantially, so the state has more resources to make investments in education and other needed services. The Tax Expenditure Review Committee exists to recommend those changes.