



## Tax & Budget

### **PROTECT ESSENTIAL SERVICES WITH PUBLIC RESOURCES**

Time to cut loopholes instead of schools, hospitals

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Taxes are how we all come together and do our part to keep society running. The public revenue our taxes generate pays for teachers, health inspectors and bus drivers. State and local governments face soaring needs but dwindling tax collections as the COVID-19 epidemic pounds the economy. Federal lawmakers have sent funds, but Gov. DeWine has already cut essential services – mostly schools and hospitals - by \$775 million.

Ohio's budget deficit in 2021 is projected to be over \$2 billion. Instead of deeper cuts to essential services, lawmakers should use the rainy day fund to fill the budget gap. They must fully utilize the federal CARES Act aid sent to Ohio, and Congress should increase support. In addition, Ohio's elected leaders should take the opportunity to modernize the tax system and make Ohio's upside-down tax system more fair. After 15 years of tax cuts, people in the middle of the income spectrum, earning about \$48,000 a year, on average, pay virtually the same as they did under the laws of 2005, but the wealthiest 1% of Ohio tax filers pay much less: on average, \$40,000 a year less. Overall, the poorest Ohioans pay nearly twice as much of their income in state and local taxes as the richest 1% do. Tax cuts for the wealthiest Ohioans perpetuate widening income and wealth inequality. Ohio's tax policies preserve injustices that allow white communities to build wealth while denying (and often suppressing) the same level of opportunity to Black and brown Ohioans.

Ohio's elected officials should ensure wealthy Ohioans and profitable corporations pay their fair share of state taxes. They should tighten the spigot on the \$10 billion annual loss of state resources to tax breaks, but they are avoiding that requirement. The Tax Expenditure Review Committee (TERC) that is supposed to review tax breaks has missed the statutory deadline for its biennial report; it has not even met. The TERC needs to conduct its review, and move to reduce or eliminate tax breaks that no longer make economic sense for the state of Ohio.

In this report, we describe a host of measures to raise more revenue to fund services all Ohioans need. These steps are all policies that have been put forward before. Some were approved by the House as a part of last year's budget process but didn't make it into the final budget. Others were proposed by Govs. Bob Taft, Ted Strickland or John Kasich. Some of the policies we include have been approved only in the past few years and deserve to be scrapped. Others were previously suggested for reduction or elimination by Policy Matters Ohio. These items include cutting the business income deduction known as the LLC loophole in half, as proposed by the Ohio House for the current budget; modernizing Ohio's oil and gas severance tax; extending the sales tax to debt collection and lobbying, as Govs. Taft and Kasich attempted to do; eliminating the vendor discount that the biggest retailers like Walmart get for collecting the sales tax and rolling back the expansion of tax incentives included in the last budget bill. Table 1, below, gives an overview of the many ways Ohio



could raise revenues while cleaning up the tax code. In his state of the state speech last year, Governor DeWine said, “At this point in Ohio history, it is time to INVEST IN OHIO!” That has become even more critical in the pandemic, and we must come up with the resources to do so. The proposals in this report are just a start.

Table 1		
Revenue measures that would close loopholes, modernize tax structure, pay for essential services		
Tax measures to raise revenues	Type of tax	Revenue that could be raised in Fiscal Year 2021 (millions)
<b>Enact tax measures considered in prior budgets</b>		
• Reduce business income deduction (LLC loophole)	Income	\$449.9
• Extend sales tax to debt collection and lobbying	Sales	\$60.0
• Modernize the severance tax on oil and gas	Severance	\$313.0
• End motion picture tax credit	Income	\$34.8
• End tax break on private company flight simulators	Sales	\$1.4
• End sales tax cap on time shares of private jets	Sales	\$11.8
• End exemption on property and maintenance services for fractionally-owned private jets	Sales	<\$1.0
• Suspend indexing of income-tax brackets for one year	Income	\$39.7
<b>Roll back tax breaks enacted in current budget</b>		
• Eliminate opportunity zone tax break	Income	\$5.0
• Reverse Job Retention Tax Credit expansion	CAT	\$5.2
• Reverse food processing tax break expansion (cleaning & supplies)	Sales	\$1.9
• Reverse historical rehabilitation tax credit expansion	CAT	\$1.5
<b>Reduce several existing tax breaks</b>		
• Reduce distribution center tax break	CAT	\$53.0
• End vendor discount for the biggest retailers	Sales	\$33.3
• Limit state 529 income tax deduction to higher education uses	Income	\$20.0
• Suspend sales tax holiday	Sales	\$16.4
<b>Eliminate several current tax breaks</b>		
• Eliminate subsidy for data centers	Sales	\$17.6
• Eliminate beauty park tax break	Sales	\$2.1
• Eliminate egg producers tax break	Sales	\$3.8
• Eliminate grain handler tax break	Sales	\$2.6
<b>TOTAL</b>		<b>\$1,073.0</b>

Source: Policy Matters Ohio based on various sources (see full report, Appendix Table 1-A)