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Policy Matters Ohio

# Executive Summary

A strong, vibrant state needs well-funded schools, public services and infrastructure. For too long, Ohio lawmakers have underfunded these important things. The state spends less than half of what's needed to meet market demand for public transit. Too few struggling families get help with the high cost of child care in Ohio's low-wage economy. Public colleges and universities are unaffordable for students from families of modest means. The unconstitutional K-12 funding formula shorts poor districts of needed aid.

Tax breaks benefitting narrow special interests contribute to Ohio's lack of money to support the vital building blocks for thriving communities. In fiscal year 2021, beginning July 1, 2020, Ohio will forgo nearly $9.8 billion in state tax exemptions, credits and deductions known as tax expenditures. The value of revenue lost to tax breaks will grow by $1.3 billion in 2020-21 compared to the prior two-year budget period, and will have grown by 18% over the decade between 2012 and 2021, adjusted for inflation. Today Ohio forgoes more state resources in the general revenue fund (GRF) in tax breaks than lawmakers spend on health and human services.

Legislators considered creating, repealing or changing 27 tax break measures in House Bill 166, the budget bill for 2020-21. The Office of Budget and Management (OBM) and the Legislative Service Commission (LSC) did not quantify all the tax break measures considered, so a complete comparison of tax breaks created or expanded and those reduced or repealed is not possible. To the degree quantification is possible, it appears there is a modest gain in revenue over the biennium of about $26 million.

Nevertheless, the General Assembly let another opportunity to further reduce ineffective, outdated or otherwise unproductive tax breaks slip through its fingers. The House voted in its version of

## KEY FINDINGS

- Tax expenditures – also known as tax breaks or loopholes – lower tax liability for a person, business or other entity.
- Ohio will forgo nearly $9.8 billion in tax exemptions, credits and deductions – all known as tax expenditures - in fiscal year 2021.
- Policymakers will allow tax breaks to cost $1.3 billion more in 2020-21 compared to the prior two-year budget period.
- Between 2012 and 2021, the amount of foregone revenue grew by 18%, adjusted for inflation.
- Legislators considered creating, repealing or changing 27 tax break measures in the budget bill for 2020-21.
- Had lawmakers taken action to reduce the $1 billion LLC Loophole and repeal the preferential income tax rate for those who take advantage of it, they could have saved a estimated $528 million a year.
- Bills for 24 new tax breaks await lawmakers' consideration this fall.
- Lawmakers created the Tax Expenditure Review Committee to provide better oversight of Ohio's tax breaks, but it's not properly funded or staffed.

the budget bill to slash the business income deduction, a $1 billion annual tax break known as the LLC loophole that has not produced economic results. It also approved repeal of the motion picture tax credit and a cap on sales tax paid by wealthy buyers of timeshares in jet aircraft. Together, these measures would have saved about more than $580 million in 2021, while adding fairness to Ohio's tax system. Only modest limitations relating to the LLC loophole remained in the enacted budget bill.

The General Assembly could consider 24 new tax breaks this fall. Most have not been quantified by the LSC and only some will move ahead, but collectively, they represent millions of dollars.

## STRENGTHEN OVERSIGHT OF OHIO'S TAX EXPENDITURES

***The Tax Expenditure Review Committee should be fully funded and appropriately staffed***

The people of Ohio deserve oversight of how lawmakers spend their resources. Both chambers of the General Assembly unanimously approved the creation of a Tax Expenditure Review Committee (TERC) in 2016. The committee met just three times during the 2018-19 biennium, giving but a cursory look at 15 sales tax breaks totaling $5.7 billion in annual state and local revenues forgone and recommending they all continue without modification.  In the budget bill for 2020-21,  lawmakers ignored one of the two other recommendations that did come out of the committee, that it: "Consider hiring additional assistance to aid in the review process." Interest in tax expenditure review, however, is not entirely dormant. House Bill 255, introduced by Representative James Hoops and referred to the House Ways and Means Committee in May of 2019, would expand the responsibilities of the Tax Expenditure Review Committee to include local property tax exemptions.

There is a clear need for careful and regular oversight of tax expenditures. Lawmakers need to take the Tax Expenditure Review Committee more seriously and staff it appropriately. Some tax breaks clearly need to be repealed or limited. Lawmakers should seriously consider House Bill 255, a proposal to expand the tax expenditure report, and oversight of the TERC to local property tax exemptions.