POLICY MATTERS OHIO

CLEVELAND OFFICE: 3631 PERKINS AVENUE, SUITE 4C-EAST • CLEVELAND, OHIO, 44114 • 216/361-9801
COLUMBUS: 1372 GRANDVIEW AVENUE, SUITE 242, COLUMBUS, OH 43212 • 614/486-4601
HTTP://WWW.POLICYMATTERSOHIO.ORG/

For Immediate Release
Monday, Feb. 12, 2007
Contact: Zach Schiller
(216) 361-9801

Read the report: http://www.policymattersohio.org/ExemptFromScrutiny2007.htm

Ohio Tax Breaks Need More Scrutiny, Report Says

Tax exemptions, deductions and credits affect a very substantial share of the state's tax base, reducing it by as much as a quarter, based on estimates two years ago by the Ohio Department of Taxation. Yet though many have been in effect for decades, they receive no regular scrutiny beyond a biennial report on state revenue losses.

Policy Matters Ohio examines what are known as "tax expenditures" in *Exempt from Scrutiny: Tax Breaks in Ohio*, a report issued today. "Tax expenditures should be closely reviewed as a part of the budget process," said Zach Schiller, research director and author of the report. "There are legitimate, useful tax expenditures. However, there is no reason why billions of dollars worth of foregone revenue should escape regular state scrutiny, any more than state spending for any other purpose should."

The report found that many of Ohio's tax expenditures are aimed at economic development, yet we have little idea of who is getting them or whether they are providing the benefits one would demand of a grant or other outright expenditure. Some tax expenditures provide an advantage to one industry or even one company, which may disadvantage other companies or industries. And though a substantial number of tax loopholes are being phased out together with the state's corporate franchise tax, the report notes, the General Assembly added numerous other tax breaks when it created the commercial activity tax in 2005.

Among the tax expenditures cited in the report are:

- The credit brewers and beer importers get on beer and malt beverage tax for paying part of them a few weeks in advance, which has been available since 1963;
- The $800 cap on the amount of sales tax paid on each jet aircraft purchased in fractional shares by wealthy Ohioans;
- Tax credits worth hundreds of millions of dollars over 20 years for unused net operating loss deductions against the corporate franchise tax, which if large enough can be written off against the commercial activity tax (CAT);

- A cap on the net-worth component of the corporate franchise tax available only to companies with at least $37.5 million in net worth, which the taxation department estimates will cost the state $75 million over the next two fiscal years;
- An exemption from the CAT for certain affiliates of financial institutions and insurance companies, a loophole worth roughly $35 million a year when the tax is fully implemented; and
- Another CAT exemption – claimed so far by a single company – covering products sent to distribution centers with more than $500 million in annual supplier costs that ship at least half their product out of state.

The Ohio Department of Taxation estimated two years ago that tax expenditures would cost the state $6.27 billion in fiscal 2006 revenue and $7.12 billion this fiscal year. Though the major tax reform enacted in 2005 changed the value of many exemptions, such expenditures are a significant element in Ohio's state budget, compared with actual state tax revenue of $20.8 billion in FY06.

The report concludes with recommendations on how to make tax expenditures more transparent and eliminate those that are unneeded.

Policy Matters Ohio is a nonprofit research institute with offices in Cleveland and Columbus.