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Read the report at: <http://www.policymattersohio.org/LimitingLoopholes2008.htm>

Ohio could save up to \$270 million a year, make tax system fairer by limiting loopholes, report finds Payday lenders, lobbyists among those that benefit

Ohio gives special tax treatment to payday lenders and mortgage brokers – they pay a lower state tax rate than banks under an outmoded tax unique to Ohio. Lobbyists and debt collectors don't have to bill their clients for sales tax. The state recently made it much easier for high-income retirees who spend part of the year out of state to avoid paying Ohio income tax. These tax breaks, which together cost the state more than \$65 million a year, are among those that are squeezing the state budget even as it is feeling more stress from the weakening economy.

Those are among the findings of a report released today by Policy Matters Ohio, a nonprofit, nonpartisan research institute based in Cleveland. In the report, *Limiting Loopholes: A Dozen Tax Breaks Ohio Can Do Without*, Policy Matters Ohio identifies 12 tax breaks whose elimination or limitation would both make the state tax system fairer and generate up to \$270 million annually in revenue for needed investments.

“These tax breaks are unwise in good times and unaffordable now, when important state services are being cut because of budget problems,” said Zach Schiller, Policy Matters research director and author of the report.

The Policy Matters report is a first step toward identifying elements of Ohio's tax code that should be scrapped and would make the tax system fairer. “The state should conduct a broad review of the tax code to pinpoint other tax loopholes that should be closed,” Schiller said.

Besides those above, others included in the report are:

- Three property-tax reduction programs that should be limited to those who need them. These include the homestead exemption for seniors (which would save at least \$118 million a year) and the 10 percent and 2.5 percent rollbacks for residential homeowners and owner occupants (which, together, would save at least \$5.2 million a year). Both Gov. George Voinovich and



Gov. Bob Taft unsuccessfully attempted to limit the latter rollbacks based on the value of the property. Taft would have limited it to property values under \$1 million.

- Special-interest breaks on the Commercial Activity Tax. These favor giant distribution centers at a cost of \$6 million a year. They also give special advantages to companies that lost tens of millions of dollars prior to the phase-out of the state's corporate income tax. These companies will be allowed to write off these losses over 20 years starting in 2010, costing the state up to \$45 million a year. Lose a little, and the state can't help you. Lose a bundle, and you qualify.
- A recent loophole that allows certain trusts to choose which tax to pay, the income tax or the Commercial Activity Tax, cutting their taxes by up to \$18 million this fiscal year;
- A newly created tax break for Avon Products, which won a sales-tax exemption on machinery and equipment at a new warehouse in Zanesville nine months after it broke ground (costing at least \$3.7 million). The General Assembly extended this special break to Avon because the company had been mistakenly told by state officials that it would be eligible for another existing tax break. Rather than create a new loophole for Avon, the state should repeal the original one (costing \$6.4 million this fiscal year).
- An exclusion from the main tax on banks that allows them to shift income into subsidiaries and avoid taxation.

Gov. Ted Strickland has already ordered cuts and adjustments to the current biennial spending plan twice, by a total of more than \$1.2 billion, amidst lower than expected tax revenues. In the next two-year budget, beginning July 1, additional pressures will face the General Assembly, including the continuing phase-in of tax cuts approved in 2005. Reductions in the income tax alone are expected to slash more than \$2 billion from state revenues each year starting in FY2010, compared to before the tax cuts. Yet Ohio has additional needs, such as handling the all-time record number of prisoners in state facilities, supporting additional spending called for in the higher education plan and providing insurance for rising numbers of Medicaid enrollees. And that excludes outlays for primary and secondary education, and other needed investments in Ohio's people and infrastructure.

Under Ohio's state and local tax system, like those in most states, low- and middle-income taxpayers pay a larger share of their income in taxes than upper-income taxpayers do. The tax breaks identified here further skew Ohio's taxes against individuals in general and low- and middle-income individuals in particular, in favor of businesses and higher-income individuals. This report is not comprehensive. Beyond eliminating or limiting the tax breaks described here, the report recommends that the state should review which services should be covered by the sales tax, as much of this sector falls outside the tax. It further suggests that the state should conduct a regular review of all the tax breaks embedded in state law.