

SPENDING BY ANOTHER NAME: THE 2009 OHIO TAX EXPENDITURE REPORT

As it struggles to approve a biennial budget, the Ohio General Assembly should closely examine the state tax expenditure report. Prepared by the Ohio Department of Taxation and sent to the legislature in February, this report examines credits, deductions and exemptions in the tax code that reduce the amount of revenue the state would otherwise receive.

The taxation department estimated that in both Fiscal Years 2010 and 2011, 122 such exemptions and credits amounted to more than \$7 billion in foregone revenue to the state's General Revenue Fund. "Tax expenditures result in a loss of tax revenue to state government, thereby reducing the funds available for other government programs," ODT noted in the report. "In essence, a tax expenditure has the same fiscal impact as a direct government expenditure." The report estimates foregone revenue, which is not necessarily what the state would get if a tax expenditure was repealed. Among its highlights:

- One exemption for banks, estimated at upwards of \$177 million each year, is worth more than their expected total corporate franchise tax;
- Ohioans with incomes over \$500,000 received \$10 million in Tax Year 2006 under the income-tax exemption for Social Security and railroad retirement benefits. The 687 retailers with sales tax collections of \$1 million or more got more in state discounts for such collections than the other 197,487 vendors.
- Business tax incentives that were transferred for use under the commercial activity tax are estimated to be much greater than projections made when the tax was created in 2005, though Policy Matters Ohio is conducting additional research to establish how much this represents real growth. Another CAT credit for companies with large, previous losses will add up to \$29 million in FY2011.
- The overall number of tax expenditures has fallen since the 2005 overhaul of Ohio's tax system, but new ones have replaced many of those that were eliminated. Overall, 70 exclusions amounting to \$3.7 billion a year are classified as business assistance and economic development.

Policy Matters Ohio has detailed in previous reports how tax expenditures do not receive the scrutiny that expenditures do, and has recommended the limitation of a dozen tax loopholes. These include ending the dealers in intangibles tax, which favors payday lenders and mortgage brokers over banks, and extending the sales tax to lobbying and debt collection services.

The General Assembly's conference committee should look to limit or eliminate unnecessary credits and exemptions. It should reexamine new or expanded tax credits and exemptions approved by the House and the Senate in their versions of the budget bill. If the full General Assembly approves any such measures, it should include sunset provisions so they expire in two years unless renewed. The legislature should set a phase-out date for all existing tax expenditures, and create a committee to make recommendations on which should be renewed.

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