Policy Matters Ohio

Executive Summary
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Multiplying Ohio Tax Breaks

Exemptions grow even as talk increases of reining them in

Zach Schiller

Ohio's $7 billion in annual tax expenditures – exemptions, credits and deductions that reduce taxes that would otherwise be paid – are getting renewed attention. Most recently, Gov. John Kasich was reported to be interested in closing tax loopholes as part of a drive to reduce the state income tax.

Even while the talk of closing loopholes continues, however, more special-interest tax expenditures are being created. The General Assembly has been approving a variety of new exclusions and credits, usually with Gov. Kasich's approval, and a blizzard of bills that would create more of them has been proposed. This year alone, the legislature has created or expanded tax credits or exemptions for companies that employ people at home, convention centers, financial institutions, motion-picture producers, and firms that do work for direct marketers, among others. Another proposed credit for companies creating jobs at vacant properties was converted into a grant program and approved, illustrating how such tax measures are in fact the same as state spending.

Key findings

- Tax breaks have been created or expanded this year for firms that employ people at home, convention centers, financial institutions, motion-picture producers, and companies that do work for direct marketers, among others
- Their cost is hard to pinpoint, but it could run into tens of millions of dollars a year
- A couple of loopholes have been plugged or prevented, but the pattern of special-interest tax breaks continues

It makes no sense for the General Assembly to be carving out such exceptions in the tax code at a time when schools and local governments have seen their support slashed, and human service programs are struggling. Cutting the income tax is also misguided, as it would favor the richest Ohioans, deprive the state of badly needed revenue for schools, public safety and human services, and likely do little for the economy.

Together, the state and local governments could forfeit tens of millions of dollars annually because of the new tax changes. It's impossible to determine the exact cost because not enough is known about some of them to make a credible estimate. New breaks approved this year won't create anywhere near the same fiscal strain as the tax changes in the biennial budget approved last year, which ended the estate tax and created more than a dozen new tax breaks for businesses, agriculture, energy, racetracks and others. But they continue a pattern of the state legislature monkeying with the tax code in mysterious ways, often for special interests, instead of eliminating outdated or unnecessary loopholes.

There have been a couple of exceptions this year to the continuing expansion of tax expenditures. Gov. Kasich vetoed one sales-tax break that would have covered purchases of property and services used in doing aerospace research. The General Assembly eliminated an existing loophole that allowed the buyer of a boat, plane, motor vehicle or other recreational property to avoid paying the sales tax if they structured it as the sale of a certain type of company. Gov. Kasich also proposed to trim tax loopholes by overhauling taxes on financial institutions, but he wants to give the money right back to banks. The bank-tax bill approved in the House and now under consideration in the Senate was modified to create new exemptions and credits.

Dozens of other tax-break bills have been proposed, many with the purpose of spurring economic development. But tax levels are not the major determinant in economic success for states. Too frequently, tax incentives reward companies for actions they would have taken anyway. They typically have a relatively small impact on business costs, so they are not an effective job creator, and the lost revenue may translate into public-job cuts that negatively affect the economy. They cost real dollars, reducing the amount available for public education, infrastructure and other spending that would promote long-term economic development.

Despite the growing attention that has been paid to Ohio's tax expenditures, state policymakers have been creating questionable new ones. Legislators and Gov. Kasich should reverse the trend – not to reward Ohio's richest with an income-tax cut, but to restore services and make the tax code fair and level for all Ohioans.