Breaking Bad

Ohio tax breaks escape scrutiny

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Key findings

- Ohio's 129 tax exemptions, deductions and credits, worth $7.7 billion a year, are similar in number and size to two years ago.
- Despite repeal of taxes that should have cut 44 tax expenditures, the number of such breaks is not much lower today than 10 years ago.
- Most tax expenditures go to businesses.
- There is no regular review of tax breaks.
- The Senate budget bill includes a dozen new or expanded tax breaks, but would repeal only two.

The Ohio General Assembly soon will approve a new two-year state budget. But so far, instead of closely reviewing the 129 tax exemptions, deductions and credits that reduce the amount of revenue the state would otherwise receive, it is adding to them.

The Senate version of the budget includes new exemptions for aerospace companies, for-profit grain handlers, and certain fraternal organizations, among others. While he attempted to broaden the sales tax to cover more services, Gov. Kasich made only a modest attempt to rein in exemptions, credits and deductions, or tax expenditures, as they are known. This effort was trimmed further in the House and Senate versions of the budget. The vast bulk of Ohio's tax expenditures continue as usual, with no regular review. Despite agreement across the political spectrum that such a regular review is in order, the General Assembly has not taken action. Action is needed.

By far the biggest new tax break approved by the Senate and now being considered by a conference committee of legislators from both houses is a new income-tax exemption for business owners worth around $700 million a year. This poorly targeted exemption is unlikely to result in significant new job creation, as only a small share of those receiving it are in a position to create new jobs. Meanwhile, it will create a new avenue for tax avoidance.

Ohio's biennial tax expenditure report sheds some light on expected spending under the tax code during the next budget. The number of tax expenditures has remained about the same over the past two years, increasing to 129, from 128 in the previous biennium. Most of the exemptions, credits and deductions go to businesses. Seventy-six of the tax expenditures, accounting for just over half of the total value in FY14 or $4.0 billion, go for business assistance and economic development.

Sales-tax expenditures account for the largest share of the total: 57, adding up to $5.08 billion in FY14, or nearly two-thirds of the total. While figures in the report do not estimate the revenue gains from repeal, this significantly reduces the sales-tax base, as sales and use tax revenue that year is expected to be about $8.92 billion in FY14.

Seven new tax expenditures valued at a total of $72.2 million in FY14 have been added since the last tax expenditure report two years ago. Five, valued at $225.4 million in total in FY13, were eliminated because of the repeal of the corporate franchise tax (1) and the estate tax (4). This included one substantial break for banks, the gain from which was given back to banks in tax-rate cuts. One other individual income tax credit expired.

Forty-four tax expenditures have ended over the past decade because of the elimination of the corporate franchise and estate taxes. Yet the total number today is just 9 below what it was in 2003 because so many have been transferred to be used against other taxes, or altogether new ones have been created. Leaving aside cases where tax expenditures were repealed and replaced with something similar, or originally approved for just a limited time, the General Assembly eliminated only two individual tax expenditures over the past decade.

Still embedded in the tax code are such breaks as a write-off against the Commercial Activity Tax (CAT) for losses that big companies experienced before it was enacted, even though they no longer pay taxes on their income; a sales-tax exemption worth almost $20 million a year for pollution-control equipment purchased by utilities even though most of it is mandated; the vendor discount for retailers that collect the sales tax, a windfall for the big retailers who get most of the benefit, and the cap on sales tax for wealthy buyers of shares in jet aircraft, who pay only a fraction of the tax they would otherwise.

Existing tax breaks have been expanded over the past two years. These range from a CAT break for a metals-refining company and a sales-tax exemption for building materials used in livestock structures for captive deer to tax credits for call centers that employ workers out of their homes.

Among substantial tax expenditures that are expected to grow the most between FY12 and FY15 according to the Taxation Department are the historic preservation tax credit, used against the individual income tax and various financial institution taxes, and the job retention tax credit, used against the CAT.

Bills providing for a regular review of tax expenditures have been introduced by members of both major political parties, and support for a regular examination has been voiced by Ohioans of varied political stripes. To be more than a review that sits on a shelf, these legislative efforts need to add automatic sunsets, so that new and existing tax expenditures expire unless they are explicitly renewed. It is time for the General Assembly to scrutinize spending through the tax code as it does other state expenditures.

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