Policy Matters Ohio

Tax Policy
August 2013

Tax breaks grow in new Ohio budget

Exemptions increase despite moves to cut them

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Key findings

- Ohio's state budget adds a host of new tax breaks
- Others were repealed or vetoed, but their value is outweighed by new or expanded exemptions
- The budget enlarged existing tax breaks, narrowed others
- Overall, tax expenditures will grow by several hundred million dollars a year

The Ohio General Assembly's recently approved budget eliminates some tax breaks, which is unusual. In the previous decade, the legislature had repealed only two individual exemptions, leaving aside cases where they were repealed and replaced with something similar, or originally approved for just a limited time. However, the budget adds eight new tax breaks while subtracting only four – and while the total increase in value isn't certain, it clearly amounts to several hundred million dollars a year. Revenue from the closed or reduced exemptions that could have been used to bolster needed public services instead was used to support cuts in the income tax.

By far the largest new tax break created in the new Ohio budget covers business income. According to estimates by both the Legislative Service Commission and the Office of Budget and Management, this new exemption will be worth more than $530 million in fiscal year 2014 and over $555 million in fiscal year 2015 to those who qualify, making it the third-largest tax break in the state tax code. The bulk of Ohio business owners eligible for the break employ no one but themselves, and are unlikely to hire employees because of a subsidy that for most will amount to no more than a few hundred dollars a year. Thus, this new tax break is unlikely to generate new jobs.

The new and expanded exemptions, deductions and credits will add to the overall $7.7 billion a year in such "tax expenditures" estimated in a biennial report by the Ohio Department of Taxation. Yet the state has no systematic mechanism for reviewing this form of state spending, unlike Washington state. Washington recently required that each new tax expenditure have a sunset date, and that the bill enacting it include its purpose and specific metrics to measure performance.

The new Ohio budget creates new tax breaks for for-profit grain handlers, certain fraternal organizations, and cable TV providers, among others. It expands existing breaks for purchases of computer data center equipment and veterans' organizations, and loosens a requirement for the Job Retention Tax Credit for large employers. It reinstates an expired provision that allows a retailer that employs at least 150 people and meets certain other requirements to keep 75 percent of the local sales tax it would otherwise pay to a county. Other tax expenditures also were created or expanded.

Not all tax breaks are bad. For example, the General Assembly created a new, state Earned Income Tax Credit, which will allow some of those who qualify for the federal EITC to receive a 5 percent credit on their Ohio income tax. This is a smart policy that takes a step toward correcting a state and local tax code that requires low-income families to pay a larger share of their income than the affluent do. The federal EITC does more than any other program to keep working families out of poverty, and Ohio now joins two dozen other states with their own credits. However, many of the poorest Ohioans will be unable to qualify for the credit. The credit is not refundable, meaning that even though low-income Ohioans on average pay more of their income in all taxes combined, they won't qualify if they aren't paying income tax.

The budget bill ends some tax breaks, such as an income-tax deduction for gambling losses, the sales-tax exemption for magazine subscriptions and the duplicate exemption, so an individual no longer can be claimed as a dependent on the state income tax by more than a single taxpayer. Gov. Kasich appropriately vetoed some others that the General Assembly would have created. These included restoration of a sales-tax exemption on investment coins and metal bullion – one of the few the General Assembly had earlier repealed – and a new sales-tax break for goods and services used in aerospace vehicle research and development. In order to help finance income-tax cuts that will go mostly to more affluent Ohioans, the General Assembly also made some other changes in income-tax exemptions and credits.

The net result is still a growing number of exemptions, causing a loss of revenue, and no system for determining which tax breaks are worth keeping and which aren't. The General Assembly should set sunset dates for all of our tax expenditures, and provide a permanent way to examine all those in the tax code now.