Testimony to the House Ways & Means Committee on House Bill 24

Zach Schiller

Good afternoon, Chairman Beck, Ranking Member Letson and members of the committee. My name is Zach Schiller and I am research director at Policy Matters Ohio, a nonprofit, nonpartisan organization with the mission of creating a more prosperous, equitable, sustainable and inclusive Ohio. Thank you for the opportunity to testify today regarding House Bill 24.

The taxation department said in its 2013 report on tax expenditures, "Unlike direct budgetary expenditures, unless there is a pre-existing termination date, tax expenditures may remain in effect indefinitely with little or no scrutiny by policy makers." House Bill 24 is a much-needed step toward rectifying this.

Policy Matters Ohio has conducted research on tax expenditures for a number of years. In an analysis earlier this year, prior to the enactment of the FY2014-15 state budget, we found that 44 tax expenditures have ended over the past decade because of the repeal of the corporate franchise and estate taxes. Yet at 129, the total number early in 2013 was just nine 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. Prior to the recent budget bill, just two individual tax expenditures were repealed in the past decade, leaving aside cases where they were repealed and replaced with something similar, or originally approved for just a limited time (Our most recent analysis of the biennial tax expenditure report and changes in tax expenditures made in the state budget, respectively, can be found on our web site at www.policymattersohio.org/tax-breaks-jun2013 and www.policymattersohio.org/tax-breaks-aug2013). The budget bill repealed four tax expenditures, but created or expanded a larger number, without the benefit of the separate prior review that would have taken place had House Bill 24 been in effect.

House Bill 24 lacks a key provision that would make the review process meaningful: Sunsets. Tax breaks should not simply remain on the books. Rather, they should stay in place only if their worth is proven. Washington State, which already has a review process, recently required that all new tax expenditures have a sunset date, so that they will automatically expire unless renewed (the default sunset is 10 years). Whether or not the committee adds sunsets to HB 24, another useful addition was recently enacted in Rhode Island, which approved a review process for its economic-development incentives. Under the state's new law, the governor must include in his or her budget proposal a recommendation about whether any recently evaluated tax expenditures should be continued, modified, or terminated.

There are other ways that House Bill 24 could be strengthened. Additional disclosure by taxpayers benefiting from specific expenditures could be required, as in Washington. Criteria for the review committee could include the extent to which any benefits remain within the state, and the question of whether repeal might have a positive effect on the economy. The bill's eight-year period for review of each tax expenditure also is unnecessarily long, at least for those 90 that each are estimated by the taxation department to lead to foregone revenue of at least $1 million in Fiscal Year 2015.

Once a review process is established, we would do well to learn from Oregon. Legislators there have required as part of their review process that proponents of each tax expenditure come in and justify it with good data, according to Republican State Rep. Vicki Berger.

A tax-expenditure review mechanism is badly needed. While there certainly are ways that this bill could be strengthened, we urge the committee to approve it as a first step toward providing the accountability for tax expenditures that Ohio needs. Thank you for the opportunity to testify. I am happy to answer any questions you may have.

Policy Matters Ohio is a nonprofit, non-partisan research institute
with offices in Cleveland and Columbus.