Testimony to the Senate Ways & Means Committee on House Bill 9

Zach Schiller

Good morning, Chairman Peterson, Ranking Member Tavares 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 9.

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 9 is a much-needed step toward rectifying this. While some tax expenditures may be discussed during the budget process, this is not done systematically or comprehensively.

Policy Matters Ohio has conducted research on tax expenditures for a number of years. The taxation department found 128 of them in its February report, so the total number of expenditures on the books was just 10 below what it was in 2003 (this does not include those added since then). Yet, an analysis we conducted two years ago found that 44 tax expenditures had ended over the previous decade because of the repeal of the corporate franchise and estate taxes. Ohio has not cut its exemptions significantly because so many have been transferred to be used against other taxes, or altogether new ones have been created.

While HB 9 is an important step forward, it 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, in 2013 required that all new tax expenditures have a sunset date, so that they will automatically expire unless renewed (the default sunset is 10 years). If a necessary consensus on sunsets for all tax expenditures cannot be achieved at this time, a starting point could be to require sunsets for all new and modified tax expenditures.

The bill calls for the Legislative Service Commission to assist the committee as directed by the committee, and for the governor to include the review committee's most recent report in the budget proposal. Both of these provisions are appropriate, but they could be strengthened. The analysis of tax expenditures should start with a review by the LSC, which should be provided with the necessary resources to do the job. In addition, the governor should include in his or her budget proposal a recommendation about whether any recently evaluated tax expenditures should be continued, modified, or terminated. These two steps would ensure a more thorough review that does not just sit on a shelf.

There are also other ways that House Bill 9 could be strengthened. Additional disclosure by taxpayers benefiting from specific expenditures could be required, as in Washington. A number of states include in their tax expenditure reports the number of beneficiaries, the cost to localities, and the distribution of benefits by income level. Adding such information would support the review process. When the committee reviews tax expenditures intended to benefit the economy, its criteria should include the extent to which any benefits remain within the state, and if the tax expenditure encouraged positive new behavior or subsidized behavior that would have occurred anyway.

The bill's eight-year period for review of each tax expenditure also is unnecessarily long. In its version of the budget bill, the Senate approved a review every two years. Certainly, a more frequent review should be done of those 91 that each are estimated by the taxation department to lead to foregone revenue of at least $1 million in Fiscal Year 2017.

A tax-expenditure review mechanism is badly needed. The Senate recognized this in its budget bill, as did the governor in his budget proposal earlier this year. Indeed, the General Assembly took a positive step in this direction with its authorization of the 2020 Tax Policy Study Commission to review and evaluate every tax credit in the Ohio Revised Code. However, those credits account for just 34 of the 128 tax expenditures identified by the taxation department, and less than $1 billion out of the more than $8 billion in annual revenue foregone. It is important also that a review committee be established permanently, as House Bill 9 says, and not just for a one-time review. We urge the committee to approve the bill 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.