



THE BUCKEYE INSTITUTE

Improving Ohio's Tax Code: Increasing Transparency on Tax Loopholes

Interested Party Testimony
Ohio House Ways and Means Committee
House Bill 255

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January 28, 2020

As Prepared for Delivery

Thank you, Chairman Merrin, Vice Chair LaRe, Ranking Member Rogers, and members of the Committee, for the opportunity to testify regarding House Bill 255.

My name is Dr. Andrew Kidd. I am an economist at **The Buckeye Institute**, an independent research and educational institution—a think tank—whose mission is to advance free-market public policy in the states.

According to the **Ohio Department of Taxation**, a tax expenditure is any tax policy that has the following four characteristics:

- The item reduces, or has the potential to reduce, one of the state’s General Revenue Fund taxes;
- The item would have been part of the defined base;
- The item is not subject to an alternative tax; and
- The item is subject to change by state legislative action.

Commonly known as tax loopholes, these expenditures, no matter how well-intentioned, add complexity to Ohio’s tax code and favor only a few specific groups at the cost of higher taxes on everyone else. As outlined in Buckeye’s **Tax Reform Principles for Ohio**, a simpler tax code with lower tax rates that allow all businesses to compete on an equal playing field should be the goal for Ohio and would be better for Ohio’s economy.

And it isn’t just The Buckeye Institute that recognizes the damage these loopholes cause. That is why we **joined with think tanks** from across the ideological spectrum to call for a detailed review of Ohio’s tax loopholes. Along with the **Greater Ohio Policy Center** and the **Center for Community Solutions**, The Buckeye Institute called for a comprehensive review—including a cost benefit analysis—of the loopholes identified in the Department of Taxation’s **Tax Expenditure Report**.

As the Committee knows, the General Assembly has heeded these calls for reform and created the Tax Expenditure Review Committee which acts as an ongoing committee to review each of Ohio’s tax expenditures at least once every eight years. Currently, however, both the Tax Expenditure Review Report and the Tax Expenditure Review Committee (TERC) only review *state* tax expenditures, leaving tax exemptions authorized by local governments beyond review.

House Bill 255 corrects this deficiency and would include a wide range of local property tax exemptions in the Tax Expenditure Report and the TERC review. Such review would then include any provision that either exempts, or authorizes a local government to exempt, all or part of the value of otherwise taxable real or tangible personal property from property taxes. In other words, House Bill 255 will finally identify and quantify the value of every local tax exemption.

This is an important addition for both the Tax Expenditure Report and TERC review.

As exceptions to the tax code, all tax expenditures effectively narrow the tax base, meaning higher taxes must be placed on those still paying taxes to ensure the government collects the same

revenue. Thus, tax expenditures, however well-intended, place additional burdens on families and businesses to the benefit of only a select few.

Although tax administrators may hope that tax expenditures might spur economic growth, **research** shows that growth does not always occur, such as the case of **Foxconn in Wisconsin**. Wisconsin pledged more than \$3 billion in tax breaks to Foxconn in 2017 in return for Foxconn's intention to create 13,000 new jobs. But Foxconn has scaled back production plans since then and is falling thousands of jobs short of expectations. Fortunately, Wisconsin could withdraw some of the tax breaks, but most still remain in play, risking higher taxes on Wisconsin taxpayers with no guarantee of meaningful job or economic growth.

The risk of well-intended tax breaks falling short of economic growth projects is just as true at the local government level as it is at the state level. The cumulative impact of local tax expenditures creates financial and competitive challenges for residents and businesses not lucky enough to receive special tax breaks, forcing their effective tax rates higher. And when expected revenues come in below projections, homeowners must pass new tax levies or raise property taxes to make up the difference.

Given Ohio's already **challenging** local tax environment, which has earned the honor of the **11th highest local tax burden** as a percentage of income, increasing the overall local tax burden is bad—especially considering that Ohio already has a **local piggyback sales tax** and **one of the worst municipal income tax** systems in the nation.

The answer to this problem is not more local loopholes and tax exceptions. Instead, the proper solution lies in lower tax rates levied on broader tax bases without special exemptions, spreading the cost of taxation more evenly and fairly among taxpayers. Once tax expenditures have been identified and eliminated, the saved revenues must be returned to the taxpayers, otherwise taxpayers are left simply with higher rates and a heavier tax burden. But closing loopholes and removing exemptions will allow for lower tax rates across the board, with savings to be shared by all households and businesses in Ohio—not just those that qualify for special tax treatment.

Little will be done to alleviate the tax inequities created by loopholes, however, until policymakers and taxpayers understand how much the tax expenditures truly cost. That is the significance of House Bill 255—to shine a light on the true costs of local tax expenditures and contribute to Ohio's ongoing conversation about how to make our state *and* local tax codes fairer, and our residents more prosperous.

Thank you for your time and attention. I would be happy to answer any questions that the Committee might have.

About The Buckeye Institute

Founded in 1989, The Buckeye Institute is an independent research and educational institution – a think tank – whose mission is to advance free-market public policy in the states.

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