THE BUCKEYE INSTITUTE

Interested Party Written Testimony Submitted to the Ohio Tax Expenditure Review Committee

May 9, 2018

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Chairman Oelslager and members of the Tax Expenditure Review Committee, thank you for the opportunity to submit written testimony today.

My name is Greg R. Lawson. I am the research fellow 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.

The Kasich Administration and the General Assembly have made progress improving Ohio's tax system. The state's personal income tax has been lowered to less than five percent, Ohio relies more on the consumption tax, which is less economically distorting, and the state has begun to slowly address its flawed municipal income tax system. These changes have improved Ohio's business climate, but more can and should be done to make Ohio more attractive to citizens and new businesses.

Confronting the proliferation of tax expenditures, commonly called "tax loopholes," is the next logical step for meaningful reform. Eliminating unneeded tax expenditures will further reduce Ohio's personal income tax, which will create a better economic environment for job creators of all shapes and sizes to grow Ohio's economy. For years, The Buckeye Institute has called for a more thorough review of tax expenditures, and we do so again today.[1]

In 2011, we joined with the Greater Ohio Policy Center and the Center for Community Solutions, two think tanks with policy views quite different than our own, to call for something similar to this very Committee to be created in order to examine the true economic effects of tax loopholes.[2] Today, we agree with our friends at Policy Matters Ohio who have called for an automatic sunset of tax expenditures in the absence of their explicit reauthorization by the General Assembly. Such a sunset provision would heighten the urgency of this review process and ensure that loopholes are regularly reviewed and eliminated when they no longer serve a public good.[3]

New tax expenditures have been inserted into the tax code at the state and federal levels for decades. Many with good reason. For example, sales tax exemptions have helped Ohio avoid a crippling tax system that inflates prices and costs to consumers by taxing subcomponents of products during production, and Ohio is wise to use exemptions that prevent such harmful taxes. But not all tax exemptions have such a net positive effect. Loopholes make the tax system more complex, less transparent, and less equitable—all hallmarks of an unsound tax policy.[4] By contrast, lower, fairer income taxes and consumption taxes will improve Ohio's tax climate without creating unfair economic advantages for some at the expense of others.

Tax expenditures cost the state tax revenue that must then be made up by other taxes and taxpayers. When, for instance, the General Assembly gives annual $1.6 million tax exemptions for flight simulators, the rest of us without flight simulators must off-set that lost revenue

[1] **Tax Loopholes Ohio Should Close**, The Buckeye Institute (Last visited May 2, 2018).
[2] *The Plain Dealer* Editorial Board, **When 3 Think Tanks With Quite Different Outlooks Agree on a List of Tax Loopholes to Close, Ohio's Leaders Should Listen**, *The Plain Dealer*, May 21, 2011.
[3] Zach Schiller and Wendy Patton, **Testimony to Tax Expenditure Review Committee**, Policy Matters Ohio, April 25, 2018.
[4] Rea S. Hederman Jr., Tom Lampman, Greg R. Lawson, and Joe Nichols, ***Tax Reform Principles for Ohio***, February 2, 2015.

through other taxes. Similar exemptions that require off-setting taxes and tax hikes now permeate the state's tax code, and their associated costs add up. According to the latest Tax Expenditure Report from the Department of Taxation, Ohio is estimated to lose more than $18 billion in revenue during the Fiscal Years 2018-2019 biennial budget period.[5]

To help address the loophole and lost revenue problem, The Buckeye Institute recently suggested closing a number of tax loopholes that cost Ohio more than $1.8 billion.[6] Our suggestions include:

- The notorious NetJets loophole for those who buy shares of corporate jets;
- The motion picture tax credit, already eliminated in other states, including Michigan;[7]
- Credits for political campaign contributions; and
- The job retention and creation tax credits that favor some businesses over others.

State policymakers have significantly improved Ohio's tax system over the past decade and a half, but more work remains to be done. Fifteen years ago, Ohio had an uncompetitive tangible personal property tax and a highly progressive personal income tax with an onerous top rate of more than seven percent.[8] As this Committee knows, that top income tax rate is actually higher due to Ohio's burdensome municipal income tax system and, in many cases, local school district income taxes. Since then, tax reform efforts have helped relieve some of the burden, but today Ohioans pay a total tax bill that remains much higher than it should.[9]

Ohio's average combined state ***and*** local tax rate is still more than seven percent according to the non-partisan Tax Foundation.[10] In some places it can climb even higher, with the combined state and local tax rate reaching nearly 10 percent[11]—a level one might expect in high-tax states like New York.[12] Such high rates have real world consequences for workers, businesses, and states. As the Tax Foundation has demonstrated, people and jobs do in fact migrate from high-tax states to low-tax states—and that migration will inevitably cost Ohio workers, businesses, and future economic opportunities.[13]

As state policymakers continue to tackle tax reform and strive to improve Ohio's recovering economy, the work of this Committee is critical. Closing unnecessary tax loopholes will save the state revenue, level the tax burden for businesses and families, and allow for further reductions in the state's still-too-high income taxes. By doing so, policymakers will strengthen Ohio's economic environment and job creation climate that will provide even greater prosperity.

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[5] Ohio Department of Taxation, ***Tax Expenditure Report: The State of Ohio Executive Budget- Fiscal Years 2018-2019***, November 25, 2016.
[6] **Tax Loopholes Ohio Should Close**, The Buckeye Institute (Last visited May 2, 2018).
[7] Paul Egan, **Snyder Signs Bill Ending Incentives for Film Industry**, *Detroit Free Press*, July 10, 2015.
[8] **Ohio Individual Income Tax Rates: 2005-2017**, Ohio Department of Taxation (Last visited May 1, 2018).
[9] **Student Tax Education Program - Tax History**, Ohio Department of Taxation (Last visited May 1, 2018).
[10] Jared Walczak and Scott Drenkard, **State and Local Tax Rates 2018**, The Tax Foundation, February 13, 2018.
[11] Morgan Scarboro, Scott Drenkard, and Rea S. Hederman Jr., ***Ohio Illustrated: A Visual Guide to Taxes and the Economy***, The Tax Foundation and The Buckeye Institute, June 2017.
[12] *Ibid.*
[13] **State to State Migration Data**, The Tax Foundation (Last visited May 3, 2018).

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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