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Shortchanging Ohioans

Loopholes and other tax breaks cost Ohio $12 billion year. Legislators should take a closer look.

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Key Findings

- Unproductive tax breaks that favor corporations and wealthy Ohioans have riddled the state tax code for years.
- As of early this year, the state had 177 tax exemptions, credits or deductions worth more than $12 billion a year, which would amount to more than a quarter of the revenue the state collects.
- House Bill 96, the budget bill recently approved by the General Assembly, limited or repealed nine tax breaks worth $325.5 million during the FY2026-27 biennium.
- However, the budget bill also will boost the cost of other tax breaks and walked back changes proposed earlier, underscoring the need for a permanent, public mechanism for reviewing all the state's tax breaks.

Introduction

Unproductive tax breaks that favor corporations and wealthy Ohioans have riddled the state tax code for years. House Bill 96, the budget bill recently approved by the General Assembly, limited a number that have long deserved restriction or elimination. Nine tax breaks, worth $325.5 million during the FY2026-27 biennium, were limited or repealed. However, the final budget plan will also increase the cost of other tax breaks, and walk back some of the changes proposed in earlier iterations, underscoring the need for a permanent, public mechanism for reviewing all the state's tax breaks.

This report reviews the General Assembly's actions on tax breaks in the budget and their status. Officially known as tax expenditures, they lower tax liability for a person, business, or other entity. They represent revenue forgone: taxes that the state could take in but has decided not to. This includes tax exemptions, exclusions, deductions, credits, deferrals, allowances, reimbursements, and preferential tax rates. Some help most people (like exempting sales tax on prescription drugs); some help certain groups (exempting sales tax on prosthetic devices); and some lower costs for certain entities (exempting sales tax on purchases by schools and local governments). However, the greatest share of Ohio's tax breaks goes to private companies.

Ohio had 177 tax expenditures as of early this year, 23 of which were added since the last report, in 2023. The most recent tax expenditure report, issued with the Governor's Budget in early February, estimated that tax expenditures will be 10 percent higher in FY2026-27 than during the two years earlier. These expenditures would amount to more than a quarter of the revenue the state collects.

New or expanded breaks are estimated to cost the General Revenue Fund (GRF) more than $1 billion during FY2026-27, most of that from the higher threshold for businesses to pay the Commercial Activity Tax (CAT). Despite all this, Ohio's tax breaks have never gotten the scrutiny they deserve.

During this year's state budget negotiations, the Ohio Senate took significant steps to rein in some tax breaks. The version that was ultimately signed walks back or weakens some of those proposals, but still reduces these expenditures by more than we have seen in recent memory.

One example of this is the vendor discount, which gives retailers 0.75% of what they collect in sales tax if the amount due is paid on time. The discount has disproportionately benefited only a small share of eligible vendors. For example, in FY2024, just 1,337 retailers that collect more than $1 million in sales and use taxes, —just 0.78% of those collecting the tax — received more than three-fifths of the discount.

Governors Strickland and Kasich attempted to cap the discount, which has become a profit center for big retailers. The state has now done so, capping the discount to $750 per retailer per month starting January 1, 2026. This protects small retailers while potentially saving taxpayers an estimated $9.7 million in FY2026 and $23.6 million in FY2027. However, after first including them, the Senate exempted car dealers from the cap, a prime example of how tax breaks can favor special interests. Nonetheless, this example shows that the General Assembly is capable of reducing ineffective expenditures when it musters the political will to do so. Table 4 describes the tax expenditures that were limited in the budget bill.

Winning major changes in Ohio's long list of tax expenditures is excruciatingly difficult. The Senate scuttled the House's 2019 attempt to reduce the $1 billion business income deduction, also known as the LLC loophole. The House-passed budget slashed the deduction, but the Senate didn't go along. The bill eventually included only a prohibition on lawyers and lobbyists from getting a deduction. Even that was stripped out just a few months later, and replaced with a transparency requirement that business owners who got the credit report on what industry they were in. Even that compromised measure was later repealed. That historic weakness makes even the limited progress toward accountability in the most recent budget bill stand out, even though the savings were used to finance an ill-advised income tax cut almost entirely benefiting the most affluent Ohioans.

Characteristics of Ohio's tax expenditures

Like most other states and the District of Columbia, Ohio publicly reports on tax exemptions, credits, and deductions. As part of the governor's biennial budget proposal, the Ohio Department of Taxation estimates Ohio's tax breaks, details them in the Tax Expenditure Report, and submits the report to the General Assembly.

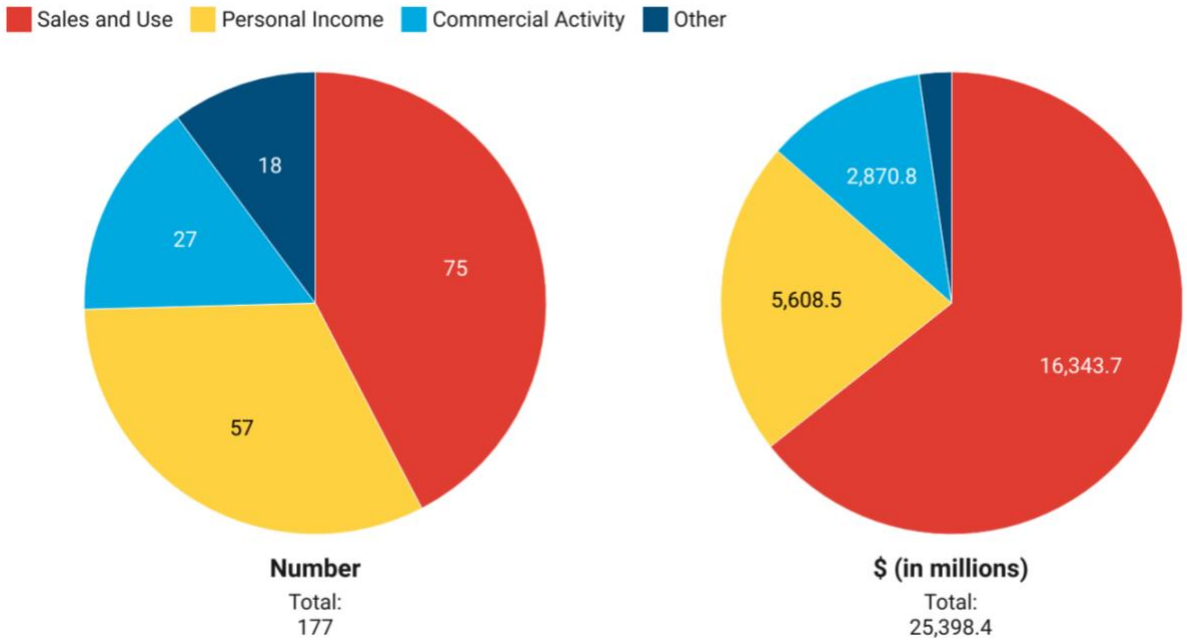
Estimates for the value of the tax breaks reflect the amount of financial benefit provided to recipients, adjusted to reflect the share of the tax expenditure that would have gone to the GRF. They do not represent the amount that the state would immediately expect to gain if they were repealed, but instead, the Taxation Department's estimate of revenue that would have otherwise gone into the state GRF for legislators to use on public services.

The most recent tax expenditure report, issued with the Governor's Budget earlier this year, estimated that in FY2026 the state would forgo an estimated $12.51 billion due to 177 tax expenditures; revenues forgone were forecast to rise by $410.9 million to $12.93 billion in FY2027. It reported that there were 75 tax expenditures in the sales and use tax, 57 in the income tax, and 45 in other business, utility, finance, tobacco, and alcohol taxes. Sixty-nine Ohio tax breaks have a value of more than $20 million during FY2026-27, while 50 were valued at less than $1 million.

Figure 1 shows the share of the tax breaks in terms of number and value for each type of tax over the biennium. The sales tax has the largest number of tax breaks, accounting for the largest loss of state revenues over the two-year budget period. The second greatest number and value of tax breaks are taken against the state personal income tax. While the sales tax is the largest state-level tax, the value of tax breaks is much greater than the tax's share of state revenue.

Figure 1: Sales & use tax breaks are the most common and expensive

Number (l) and value (r) of tax breaks in the 2026-7 budget by type

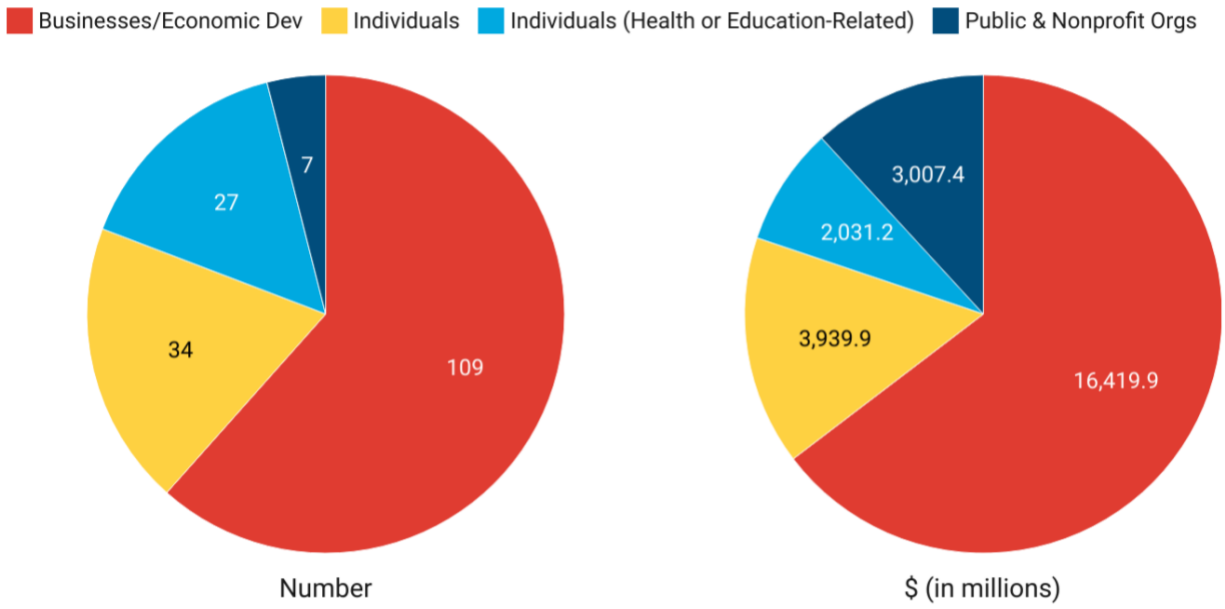


Ohio Dept. of Taxation, 2026-27 Tax Expenditure Report; analysis by Policy Matters Ohio.

Using the definitions developed by the state Department of Taxation in the 2010-11 tax expenditure report, we analyzed current tax breaks by type of beneficiary. Figure 2 illustrates the types of tax expenditure beneficiaries in terms of the number of tax breaks and the total value of tax breaks.

Figure 2: Businesses are most common and costly beneficiaries

Number (l) and value (r) of tax breaks in the 2026-7 budget by type of beneficiary



Ohio Dept. of Taxation, 2026-27 Tax Expenditure Report; analysis by Policy Matters Ohio.

Tax breaks for business & economic development: Of Ohio's 177 tax expenditures listed in the most recent tax expenditure report, 109 (62%) will benefit business and economic development. This category includes tax breaks for all sectors: manufacturing, retail, food preparation, agriculture, mining, communications and telecommunications, utilities, and more.

The state will forgo an estimated $16.42 billion on these tax breaks in FY2026-27. This accounts for 64.5% of the estimated total of $25.44 billion in forgone revenues over the two-year period. These tax breaks will grow by an estimated $410.9 million from FY2026 to FY2027, and an estimated $1.64 billion between the FY2024-25 and FY2026-27.

Tax breaks that benefit individuals: There are 61 tax breaks that benefit individuals: 34 are general, like the personal exemption and various retirement exemptions to the income tax, and 27 are specifically for health or education purposes. The state will forgo $5.97 billion in tax breaks for individuals in 2026-27, 23.5% of total revenues forgone. About $2.03 billion are in tax breaks intended for education and health purposes and $3.94 billion for more general purposes.

Altogether, lawmakers increased tax expenditures for individuals by an estimated $369.7 million (6.6%) between the 2024-25 biennium and the 2026-27 biennium. They increased tax breaks for health and education purposes by an estimated $164.7 million or 8.82%. Those that benefit individuals in ways other than in education and health will grow by an estimated $205 million (5.49%).

Tax breaks for public sector & nonprofits: Just seven tax breaks – 4% of the 177 identified in the report – benefit the public sector and nonprofits. The state will forgo

$3.01 billion on these seven tax breaks in the 2026-27 budget, accounting for 11.8% of total revenue forgone. These tax breaks will grow by an estimated $274.2 million between FY2024-25 and FY2026-27.

Tax breaks by size and growth

Table 1 shows Ohio's 20 biggest tax expenditures, listed by size in state revenues forgone in the 2026-27 biennium. In this section, we focus on three of the largest.

The sales tax exemption for goods purchased primarily for use in the manufacturing process has long been the largest single tax expenditure in Ohio. The idea behind this exemption, and others that cover business inputs, is to avoid the payment of sales or use tax multiple times, as products work their way through the production process.

The business income deduction, also known as the LLC loophole, allows individuals to deduct up to $250,000 of net business income. It has grown to become the state's second-largest tax break—and that doesn't include the lower rate that recipients of this deduction pay on business income above $250,000. Wealthy individuals benefit most from the LLC loophole. In FY 2023, a majority of filers claiming the deduction claimed less than $20,000 and received 6.9% of the total value of such deductions. Meanwhile, the 8.3% of filers who claimed $240,000 or more received 41.1% of the deductions. For most claimants, the amount saved isn't nearly enough to hire anyone; even at the top income-tax rate of 3.5% last year, a $20,000 deduction would be worth just $700. And as one would expect, the deduction has not fundamentally altered Ohio's economic performance, as the state continues to lag the nation on most key indicators. Our 2022 report on the LLC loophole provides more detail on this misguided and costly tax policy.

The Commercial Activity Tax (CAT) is the state's general business tax; unlike the vast majority of states, we have no state-level tax on corporate profits. The CAT is levied on Ohio gross receipts. It was created to be a broad tax covering most businesses, with some exceptions like banks, insurance companies, and utilities, which are taxed separately.

In the 2023 budget bill, the General Assembly converted the CAT into a tax that covers fewer than one-tenth of Ohio business. It raised the threshold for when the tax is collected to $3 million in Tax Year 2024 and $6 million in subsequent years, up from $1 million previously, and eliminated the previous tiers of minimum tax that had to be paid. In so doing, it made the exclusion the third-largest tax break, costing more than $1.5 billion over the FY 2026-27 biennium.

Even before the increase, most Ohio businesses were paying $150 or nothing at all in CAT, because businesses with less than $150,000 in Ohio gross receipts didn't have to pay the tax and those with receipts below $1 million paid a flat $150. According to data from the Ohio Department of Taxation covering FY 2023, this meant more than 100,000 of the 164,465 filers were liable for just $150 – and that doesn't include those who paid nothing at all. The increase in the threshold means that just under 18,000 companies will be left paying the tax. Yet these companies, with more than $6 million in annual Ohio gross receipts, will receive more than half the benefit of the higher threshold.

Ohio already has relatively low business taxes, according to an annual study by Ernst & Young for the Council on State Taxation, a group that lobbies on tax policy for big businesses. The increase in the exclusion by FY 2027 will jack up its value by two and a half times what an earlier tax expenditure report had estimated for FY 2025. This was a move in the wrong direction.

Table 1: Twenty largest tax expenditures in 2026-27 Ohio Tax Expenditure Report

In millions of $, not inflation adjusted

Tax Expenditure	Type	2024-25	2026-27
Property used primarily in manufacturing	Sales and Use	$4,790.4	$4,993.8
Ohio business income deduction	Personal Income	$1,737.5	$1,821.8
Exclusion of first $3 million of taxable gross receipts for TY 2024 and the first $6 million of taxable gross receipts for TY 2025 and beyond	Commercial Activity	$960.3	$1,551.6
Sales to churches and certain other types of non-profit organizations	Sales and Use	$1,359.5	$1,517.4
Prescription drugs and selected medical supplies	Sales and Use	$1,207.5	$1,317.1
Building and const materials used in certain structures	Sales and Use	$874.7	$967.3
Personal, spousal, and dependent exemption	Personal Income	$891.9	$930.1
TPP used in agriculture	Sales and Use	$877.8	$863.4
Social security and railroad retirement benefits	Personal Income	$796.1	$834.1
Sales of TPP and services to electricity providers	Sales and Use	$782.1	$822.8
Transportation of persons and property	Sales and Use	$704.8	$774.9
Qualifying distribution center receipts	Commercial Activity	$636.7	$772.0
Value of motor vehicle trade-ins	Sales and Use	$581.5	$604.7
Packaging and packaging equipment	Sales and Use	$575.9	$594.4
Joint filer credit	Personal Income	$406.2	$424.2
Resident credit for income taxed by another state	Personal Income	$377.7	$417.2
Sales to the state, its subdivisions & certain other states	Sales and Use	$363.7	$374.9
TPP used directly in providing public utility services	Sales and Use	$344.9	$354.6
TPP and services used in providing telecommunications services	Sales and Use	$315.7	$336.5
Sales of qualified property used in an eligible computer data center	Sales and Use	$266.2	$289.8

Ohio Dept. of Taxation's Tax Expenditure Report for FY 2026-27.

Tax breaks may be maximized by corporate tax planning: The tax break for qualifying distribution centers is taken against the CAT. It goes to suppliers of certain distribution and warehousing firms, called qualified distribution centers (QDCs) by the state, that buy at least $500 million a year of goods and ship at least half of them outside Ohio. They can avoid paying the CAT on products they ship from these warehouses out of state. Incredibly, Cardinal Health says that none of the product shipped from its warehouse in Groveport remains in Ohio. The Kasich administration, which attempted to rein in this tax break, described this as a form of tax planning, which suppliers to distribution centers have used to reduce their CAT liability to zero. This tax break has grown to become one of the biggest tax breaks and is among those expected to grow the fastest over this biennium.

Fastest growing tax expenditures over $20 million

Table 2 shows the 20 tax expenditures worth over $20 million during the 2026-27 biennium with the fastest rates of growth between FY 2024-25 and 2026-27. The top two, the WELCOME HOME tax credit and the Ohio Low-income Housing Tax Credit, were newly created in the 2024-25 budget to increase affordable housing production.

Some of the others could turn out to be valued much differently than the analysis in the report says because of more recent events: Legislators boosted the amount available for the transformational mixed-use credit in this year's budget bill. And the sales tax holiday is no longer a three-day period during which the purchase of school-related items doesn't incur sales tax; now, it's a two-week period covering most goods people buy.

On the other hand, two expenditures covering megaproject operators or suppliers likely will be valued at less than estimated, because Intel Corp. has slowed construction of the two semiconductor plants that constitute its megaproject.

One tax expenditure, covering sales tax on tangible personal property used in electronic publishing, will disappear on Jan. 1, 2026, after the General Assembly repealed the tax break in House Bill 96.

Other fast-growing tax breaks include the Job Creation Tax Credit, the state's leading economic development tax incentive. The governor anticipated in the budget bill that $705 million in such credits would be outstanding at the end of this biennium. The CAT tax break covering suppliers to qualified distribution centers also is among the fastest-growing.

Table 2: Twenty tax expenditures over $20 million with the fastest rate of growth

In millions of $, not inflation adjusted

Tax Expenditure	Type	2024-25	2026-27	Growth
Exclusion of first $3 million of taxable gross receipts for TY 2024 and the first $6 million of taxable gross receipts for TY 2025 and beyond	Commercial Activity	$960.3	$1,551.6	$591.3
Property used primarily in manufacturing	Sales and Use	$4,790.4	$4,993.8	$203.4
Sales to churches and certain other types of non-profit organizations	Sales and Use	$1,359.5	$1,517.4	$157.9
Qualifying distribution center receipts	Commercial Activity	$636.7	$772.0	$135.3
Contributions to transformational mixed-use development projects	Insurance	$41.5	$165.4	$123.9
Prescription drugs and selected medical supplies	Sales and Use	$1,207.5	$1,317.1	$109.6
Sales of tangible personal property to a megaproject operator for use in certain circumstances at the site of a semiconductor wafer manufacturing megaproject	Sales and Use	$157.4	$266.2	$108.8
Building and const materials used in certain structures	Sales and Use	$874.7	$967.3	$92.6
Ohio business income deduction	Personal Income	$1,737.5	$1,821.8	$84.3
Transportation of persons and property	Sales and Use	$704.8	$774.9	$70.1
Sales of TPP and services to electricity providers	Sales and Use	$782.1	$822.8	$40.7
Resident credit for income taxed by another state	Personal Income	$377.7	$417.2	$39.5
Personal, spousal, and dependent exemption	Personal Income	$891.9	$930.1	$38.2
Social security and railroad retirement benefits	Personal Income	$796.1	$834.1	$38.0
Ohio Low-Income Housing Tax Credit Program	Personal Income (business)	$8.5	$45.9	$37.4
Tangible personal property used in electronic publishing	Sales and Use	$75.4	$104.8	$29.4
Job creation credit	Commercial Activity	$226.2	$252.0	$25.8
Three-day sales tax holiday for specified clothing, school supplies and school instructional material	Sales and Use	$22.7	$47.3	$24.6
Sales of qualified property used in an eligible computer data center	Sales and Use	$266.2	$289.8	$23.6
Value of motor vehicle trade-ins	Sales and Use	$581.5	$604.7	$23.2

Ohio Dept. of Taxation's Tax Expenditure Report for FY 2026-27.

Largest growth in tax expenditures

The two biggest tax expenditures listed in the report – an exclusion under the CAT of the first $3 million of taxable gross receipts for TY 2024 and the first $6 million of taxable gross receipts for TY 2025 and beyond, and property used primarily in manufacturing — will have the greatest growth in total value in the 2026-27 budget period compared to the 2024-25 budget period. As noted above, the increase in the CAT exclusion will go mostly to bigger companies with more than $6 million in Ohio gross receipts, while small Ohio companies paid little or no CAT even prior to this expanded tax break. Many of the largest tax expenditures (Table 1) and fastest growing expenditures (Table 2) are also among those that have grown the most from FY 2024-25 to FY 2026-27 (Table 3). As noted above, the sales tax exemption for tangible personal property used in electronic publishing, was repealed in the 2026-27 budget bill, effective Jan. 1.

Ohio policymakers should consider how other states approach tax exemptions. According to a 2018 memorandum by researchers at the National Conference of State Legislatures provided to the chair of Ohio's then-existing tax expenditure review committee, Ohio was the only state among its neighbors to allow a sales-tax exemption for building and construction materials used in certain structures (although Pennsylvania has a limited exemption covering such materials used to facilitate public utility services). Ohio's exemption covers a vast array of facilities, from certain sports facilities and convention centers to structures used for horticultural purposes; in 2011, it was expanded to cover structures for captive deer, horses, and fish farming, leading some to dub it "the Bambi exemption." This exemption should be narrowed.

Table 3: Tax expenditures with largest absolute growth since last budget

In millions of $, not inflation adjusted

Tax Expenditure	Type	2024-25	2026-27	Growth
Exclusion of first $3 million of taxable gross receipts for TY 2024 and the first $6 million of taxable gross receipts for TY 2025 and beyond	Commercial Activity	$960.3	$1,551.6	$591.3
Property used primarily in manufacturing	Sales and Use	$4,790.4	$4,993.8	$203.4
Sales to churches and certain other types of non-profit organizations	Sales and Use	$1,359.5	$1,517.4	$157.9
Qualifying distribution center receipts	Commercial Activity	$636.7	$772.0	$135.3
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Value of motor vehicle trade-ins	Sales and Use	$581.5	$604.7	$23.2

Ohio Dept. of Taxation's Tax Expenditure Report for FY 2026-27.

Changes since the last report

In the tax expenditure report for 2024-25, there were 154 tax breaks; in the 2026-27 tax expenditure report, there are 177. Twenty-three expenditures were added; none were eliminated. New tax breaks estimated to cost more than $20 million during 2026-27 included:

- Baby diapers: This is a sales tax exemption with an estimated value of $18.8 million in FY 26 and $19 million in FY 27.
- Motor vehicle and manufactured home documentary service charges: This sales exemption is projected to be valued at $39.2 million in FY 26 and $40 million FY 27.
- Deduction for capital gains from the sale of business interests: This income tax deduction, originally approved in 2021, is estimated to be worth about $31 million a year starting in FY 2027. This is a giveaway to business owners who are already favored by the LLC Loophole and has not been shown to do anything for Ohio's economy.
- Ohio Low-Income Housing Tax Credit Program: This income tax credit is estimated to be valued at $18.1 million in FY 26 and $27.8 million in FY 27.
- Welcome Home Ohio Program: This income tax credit is estimated to be valued at $12.1 million in FY 26 and $9.7 million in FY 27.

These 23 new breaks will cost the GRF about $285.6 million in revenue (2026-27). That doesn't include expansions of existing tax breaks, such as the sales tax holiday and the exclusion for CAT receipts. For a list of all 23, see the Appendix.

This tax expenditure report is also the first one to include information on property tax expenditures. Much of this was available previously in other documents. However, one highlight is the rapid growth of exemptions for local economic development. Such exemptions grew $48.26 billion in taxable value in Calendar Year 2020 to $69.05 billion in CY 2023. This underlines the need for additional guardrails on such tax abatements.

Modified tax breaks in the budget bill

The General Assembly eliminated or reduced nine tax expenditures in House Bill 96, worth a total of $325.5 million to the GRF during the FY 2026-27 biennium (includes only those with a fiscal effect of at least $1 million a year). Table 4 lists these tax breaks. They included two income-tax breaks, the joint filer credit and the personal exemption, that the General Assembly means-tested, limiting eligibility to those below $750,000 in TY 2025 and $500,000 in TY 2026. It also repealed five sales-tax exemptions, mostly special-interest breaks for specific industries. And it repealed the $50 credit for campaign contributions to candidates running for state offices, a credit that had previously been repealed and reinstated.

Table 4: Positive fiscal impact of eliminating or reducing tax expenditures

In millions of $

Tax Expenditure	FY2026	FY2027
Income tax campaign contribution credit: Repeals the $50 credit for contributions to certain state political candidate campaigns.	$1.50	$1.60
Sales and use tax: vendor discount cap: caps the vendor discount at $750 per vendor's license per month. Discount still applies to motor vehicles and motor vehicle leases.	$9.70	$23.60
Sales tax exemption: Repeals exemption for rental payments for motor vehicles provided to the owner or lessee of a vehicle that is being repaired, if the payments are reimbursed by the service provider.	$1.60	$3.90
Sales tax exemption: Repeals the exemption for (1) refrigerated food vending machines (2) sales of advertising material or catalogs, and (3) purchases by direct marketing vendors of items that are used in printing advertising material and equipment to accept orders.	$32.50	$79.90
Sales tax exemption: Repeals the exemption for the sales of telecommunications services that are used directly and primarily to perform the functions of a qualified call center.	$8.50	$20.80
Sales tax exemption: Repeals the exemption for TPP used in acquiring formatting, editing, storing, and disseminating data or information by electronic publishing.	$20.00	$56.70
Sales tax exemption: Repeals the 25% refund of sales and use taxes provided to providers of electronic information services.	$0.50	$1.20
Personal exemption limit: Limits eligibility for personal exemptions to taxpayer with MAGI of $750,000 or less in TY 2025 and MAGI of $500,000 or less in TY 2026.	$6.90	$15.70
Joint filer credit limit: Limits eligibility for the joint filer credit to taxpayer with MAGI of $750,000 or less in TY 2025 and MAGI of $500,000 or less in TY 2026.	$12.80	$28.10
Total	**$94**	**$231.50**

Ohio Dept. of Taxation, in concert with Ohio Office of Budget & Management

The legislature added or expanded six tax expenditures in HB 96 for FY 2026-27, worth a total of $95.4 million to the GRF (includes only those with a fiscal effect of at least $1 million a year). That included modifying the Welcome Home Ohio program, extending it through FY 2027 and adding $20 million in credits. It allowed certain passthrough entity owners to claim refundable tax credits and increased the percentage of rehabilitation costs those claiming the historic rehabilitation tax credit may claim in certain projects. The legislature also increased the home school expense tax credit by changing the maximum expense amount allowed from $250 per tax return to $250 per qualifying student. It increased the amount of credits that may be awarded under the Opportunity Zone investment tax credit from $25 million a year to $50 million a year. And it

broadened the definition of casual sales – sales of used items not covered by the sales tax.

Table 5: Negative fiscal impact of new or expanded tax expenditures

Tax Expenditure	2026	2027
Welcome Home Ohio Program: Makes many modifications to the program, including extending the sunsetting of credit issuance through the end of FY 2027 for an additional $20M of credits.	$4.80	$9.70
Pass-through entity taxation: Allows pass-through entities that pay an elective tax designed to circumvent the federal cap on credits for state and local taxes (SALT) paid and a combined tax paid on behalf of multiple investors to claim certain refundable credits available to the entities' owners when calculating the elective tax due.	$8.80	$0.00
Historic rehabilitation tax credit: Increases the percentage of rehabilitation costs a certificate owner may claim as a credit from 25% to 35% for a project that is not located in a municipality with a population of at least 300,000.	$4.40	$12.00
Education tax credits: Increases the home school expense tax credit by changing the maximum amount of educational expenses the credit can cover, from $250 per return to $250 per qualifying student. Disallows the credit from being claimed on the basis of expenses paid from an educational savings account (ESA).	$1.10	$1.10
Opportunity zone investment tax credit: Sunsets the Ohio opportunity zone investment income tax credit at the end of 2027. Increases the amount of credits that may be awarded in FY 2026 and FY 2027 from $25 million to $50 million.	$24.20	$24.20
*Casual sale definition: Explicitly includes in person and online sales. Defines online auctions as casual sales.	$1.90	$3.20
Total	**$45.20**	**$50.20**

**The casual sales exemption, involving the sale of an item by a person who had originally acquired it for their own use if the item had already had been subject to a state sales and use tax, is not included in the tax expenditure report because the Department of Taxation says that that the sales tax was not designed to tax transactions covered by the casual sales exemption.*

General Assembly retreats from other, significant and needed changes

The General Assembly drew back from more significant cuts in tax breaks, and Gov. DeWine vetoed others. As a result, the changes were not as significant as they might have been. One example: The state Senate attempted to repeal the provision of Ohio law that allows certain trusts to be taxed under either the CAT or the income tax, which costs more than $7 million a year, according to the tax expenditure report. It was reinstated in the final budget.

Three economic development tax credits that have long needed limitation and that the Senate initially would have sunset at the end of 2027 – the credit for film and theatrical productions, the opportunity zone credit, and the transformational mixed use

development credit – instead were allowed to continue. While there won't be new credits awarded after then unless specifically authorized, it remains an open invitation to the General Assembly to continue them.

Moreover, with the transformational mixed use credit, the General Assembly approved a major increase in the annual cap from $100 million to $125 million a year, though the cost will only show up after the end of the 2026-27 biennium. That wasn't the only such case: The General Assembly also doubled the amount of opportunity zone credits that may be awarded to $50 million a year in FY 2026 and 2027.

On the other hand, it also limited a credit against the CAT for net operating losses accrued under the long-defunct corporate franchise tax, a credit that never should have been authorized in the first place. That measure, proposed by Gov. DeWine, could save as much as $200 million after 2029, according to the Legislative Service Commission. The General Assembly also sunset the award of new Small Business Investment (InvestOhio) credits in January 2026, which could result in a potential increase in tax revenue in FY 2028, after the two-year holding period is over. And it added an element of accountability by preventing port authorities from entering into certain agreements to provide sales tax exemptions for construction projects unless approved by county commissioners (this could potentially increase state and local sales-tax revenue, though the taxation department said the increase was "indeterminate").

Some other tax break changes were more troubling, even if their fiscal impact is small. The legislature decreased the annual limit for the lead abatement tax credit, even while slashing funding for that important priority. The General Assembly also created an income tax credit of up to $750 a year for so-called crisis pregnancy centers, which have been criticized as unethical in the AMA Journal of Ethics for providing misinformation that undermines women's health in their mission to prevent abortions.

Governor DeWine's vetoes

Governor DeWine also vetoed six tax expenditure change proposals. Of the six, he vetoed five expenditure reduction proposals and one new expenditure proposal. Some of the vetoes made sense, such as his veto of repealing the sales tax exemption for newspapers, which appeared to be a legislative attempt to attack those media. He also did well to veto the creation of an educational savings account program which would have allowed students attending nonchartered nonpublic (NCNP) schools to receive state funding for tuition and other school expenses. He noted in his veto message that "there is a lack of oversight and compliance mechanisms for NCNP schools in Ohio law" and the program lacked accountability.

Unfortunately, Gov. DeWine also vetoed a budget provision that would've disallowed additional data centers for a sales tax exemption after October 1, 2025. The sales tax exemption for data centers, one of the state's fast-growing tax breaks, will be worth $289.9 million over the FY 2026-27 biennium, according to the Tax Expenditure Report, and probably a lot more if more recently announced investments were included. In many cases, the exemption amounts to as much as $1 million for each data-center job

created. The budget bill provision that Gov. DeWine vetoed would have prohibited new agreements after Oct. 1, 2025. Though this wouldn't have affected many of the largest data center operators like Amazon, Google, and Meta, which have existing agreements that will allow them to take advantage of the exemption for years into the future, it would at least have outlawed new agreements. The Legislative Service Commission estimated it could save up to $20 million in FY 2027, though it could be lower if companies accelerated their applications before the deadline. Hopefully, the General Assembly will override the governor's veto of this provision.

Enforcing accountability: Tax expenditure reviews

Until four years ago, Ohio was among the majority of states that had a formal process for evaluating their state tax expenditures. These evaluations analyze expenditures for factors such as their costs, benefits, efficiency, the degree to which they change business behavior, and recommendations for improvement. Tax expenditure review committees, and people employed in such efforts to analyze these aspects of tax expenditures, help the state and its taxpayers evaluate whether expenditures are benefiting those they are intended to help, and, if so, how efficient they are.

Tax Expenditure Review Committee: In 2016, Policy Matters Ohio and other advocates lauded Ohio's state lawmakers for passing a bill to start regularly reviewing tax breaks. The legislation to create the Tax Expenditure Review Committee (TERC) passed on a unanimous, bicameral, bipartisan basis. However, lawmakers found living up to the promise of good government harder than anticipated. They eliminated the TERC in the 2022-23 budget bill, after a weak review of 15 sales-tax breaks and failing to carry out its mandates at all in the 2020-21 budget period.

Other states' lawmakers regularly review and evaluate tax expenditures, especially those meant to spur economic development:

- Virginia's Joint Legislative Audit & Review Committee (JLARC) creates annual Economic Development Incentives reports. The committee not only reviews and evaluates tax expenditures (and grant awards or other economic development financing) but also makes recommendations to "achieve greater efficiency and effectiveness." The Commission employs a full-time staff and includes nine members of the House and five of the Senate.
- Washington state also has its own JLARC, which consists of eight senators and eight representatives, and performs annual tax preference reviews. In these reviews, analysts are required to evaluate the public policy objectives, beneficiaries, revenue and economic impacts, other states' similar preferences, racial equity, and make recommendations on the preferences.
- In Pennsylvania, tax expenditures are reported, updated, and revised biennially in the Governor's Executive Budget. These analyses include the expenditures' description, purpose, estimated cost, estimated administrative cost, and the actual or estimated number of beneficiaries. The state's Independent Fiscal Office (IFO) produces tax credit review reports every five years that are required to

analyze each credit's purpose, efficiency, cost, possible alternative methods, whether the credit is accomplishing its legislative intent, and recommendations for improvement. The IFO employs nine financial economists and analysts.

- In Texas, the Comptroller of Public Affairs publishes Tax Expenditure & Tax Incidence reports every two years. While it does not make any recommendations for retaining, eliminating, or amending any expenditures, it is unusual in that it reports on the "incidence" of tax breaks: who ultimately bears the cost, by income level.
- In 2016, Colorado enacted legislation that requires the state auditor to review all types of tax expenditures at least once every five years. The state tax expenditure evaluation process includes a summary of each tax expenditure's purpose, intent, or goal; its intended beneficiaries; an explanation of its intended economic costs and benefits; a comparison of it to other similar tax expenditures in other states; an explanation of its performance measures; its cost-effectiveness; its effect on business, competition, and stakeholders; and opportunities for improving effectiveness.

These tax expenditure review processes vary considerably in how far-reaching they are. Ohio lawmakers could do similar reviews, but instead of supporting expert analysis, public input, and a clear method for examining tax expenditures, they have opted for using the biennial budget process to occasionally make changes in spending through the tax code.

Recommendations and conclusion

Ohioans should require their elected state leaders to be more accountable. Tax breaks for special interests should be subject to the same scrutiny and debate as budgetary spending for public programs like K-12 education, Adult Protective Services, college financial aid, and Medicaid. If lawmakers do not want a special committee to review tax breaks, then the funding for each tax break should be re-appropriated in each budget bill, just as funds for programs and public services are scrutinized, evaluated, and reappropriated every two years. In lieu of such a committee, the Ways and Means Committee of each house of the General Assembly should be responsible for ensuring substantive reviews of each tax expenditure. The committees should:

- Be provided with staff and expertise for evaluation: The General Assembly should provide funding for the evaluation and oversight of tax expenditures. The Legislative Service Commission should hire experienced staff to assist each committee. That staff should be funded to contract with outside experts as necessary to ensure adequate oversight.
- Understand who benefits from each tax break: Understanding each tax expenditure should begin with data on how many entities are benefiting from it.
- Know the purpose of each tax break: Every tax expenditure should have a specific, known, valid purpose — or it should not exist.
- Evaluate whether the tax break is still needed and effective for the original purpose.

- Define good corporate behavior: Document, where feasible, wage levels and compliance with state law of entities benefiting from each tax break. The state should also take other steps to determine whether tax breaks are benefiting Ohioans. Companies should have to disclose major layoffs, as already required in WARN notices; should disclose production shifts to foreign locations; and should describe the impact on all affected communities if an operation benefiting from a tax break is moved from one Ohio site to another.
- Incentivize good behavior: In considering possible modifications, the committee should consider whether guard rails should be added to ensure that recipients are paying taxes, complying with state laws, and providing information that allows for appropriate review of the tax break.
- Review county-by-county impact of state tax breaks: Ohioans should understand the impact of sales-tax exemptions by county and transit agency and how state tax breaks affect local budgets. New tax breaks are contributing to a loss of public services that benefit all people, not just special interests.

Too many Ohio lawmakers have prized cutting taxes in a manner that benefits the wealthiest people and corporations, taking billions out of the pool of public resources. Spending through the tax code too often benefits select groups and special interests instead of funding public services that are available to everyone.

State lawmakers should turn their attention to the pressing needs of residents and target our pooled resources for what we all need: clean water, safe streets, good schools, and all the other public services that contribute to the quality of our lives. Targeting unneeded tax breaks is one way to make that happen. While some modest steps were taken to do so in the recent budget, Ohio has a long way to go.

Appendix

Tax expenditures added in the FY 2026-27 report

In millions of $

Tax Expenditure	Type	FY 2026	FY 2027	Total
Certain watercraft that are seasonally stored or repaired in Ohio	Sales and Use	$1.9	$1.9	**$3.8**
Baby Diapers	Sales and Use	$18.8	$19.0	**$37.8**
Skin creams and wipes for children	Sales and Use	$1.0	$1.0	**$2.0**
Child car seats	Sales and Use	$2.7	$2.8	**$5.5**
Baby strollers	Sales and Use	$2.2	$2.2	**$4.4**
Deduction of sales tax remitted for certain bad debts charged off as uncollectible by private label credit card account lenders	Sales and Use	$7.0	$7.2	**$14.2**
Exemption for income tax filing fees	Sales and Use	$1.6	$1.6	**$3.2**
Motor vehicle and manufactured home documentary service charges	Sales and Use	$39.2	$40.0	**$79.2**
Deduction for venture capital gains	Personal Income	N/A	$11.0	**$11.0**
Exempt the 4% fee on the sale of consumer grade fireworks	Sales and Use	Minimal	Minimal	**Minimal**
Bassinets and baby cribs	Sales and Use	Minimal	Minimal	**Minimal**
Home purchase savings account tax deduction	Personal Income	$2.4	$2.5	**$4.9**
Deduction for capital gains from the sale of business interests	Personal Income	N/A	$31.1	**Minimal**
Tax deduction for payments received from gov't or railroad companies as a result of the East Palestine train derailment	Personal Income	Minimal	Minimal	**Minimal**
Tax Credit for commercial vehicle operator training expenses	Personal Income	$1.4	$1.4	**$2.8**
Ohio Low-Income Housing Tax Credit Program	Personal Income	$18.1	$27.8	**$45.9**
Ohio Single Family Tax Credit Program	Personal Income	$5.9	$12.1	**$18.0**
Welcome Home Ohio Program	Personal Income	$12.1	$9.7	**$21.8**
Deduction for student loan amounts repaid under rural practice incentive program	Personal Income	Minimal	Minimal	**Minimal**
Deduction for amounts delivered to a higher education institution on behalf of adopted Ohio residents who are attending the institution	Personal Income	Minimal	Minimal	**Minimal**
Deduction for amounts received under the Ohio adoption grant program	Personal Income	Minimal	Minimal	**Minimal**
Exclusion for receipts a taxpayer receives to compensate for lost business resulting from the East Palestine train derailment	Commercial Activity	Minimal	Minimal	**Minimal**
Exclusion for gross receipts from consumer fireworks 4% fee	Commercial Activity	Minimal	Minimal	**Minimal**

Ohio Department of Taxation, Tax Expenditure Reports.