



OHIO CONSTITUTIONAL MODERNIZATION COMMISSION

**MINUTES OF THE
FINANCE, TAXATION, AND ECONOMIC DEVELOPMENT COMMITTEE**

**FOR THE MEETING HELD
THURSDAY, SEPTEMBER 11, 2014**

Call to Order:

Vice Chairman Bell called the meeting of the Finance, Taxation, and Economic Development Committee to order at 10:20 a.m.

Members Present:

A quorum was present with committee members Bell, Asher, Peterson, Sawyer, Mills, Tavares, and Davidson in attendance.

Approval of Minutes:

The minutes of the April 10, 2014 meeting of the committee were approved.

Topics Reviewed:

Tax Preferences and Exemptions

Jon Honeck, Director of Public Policy at the Center for Community Solutions, gave a presentation on tax expenditures and increasing the transparency and accountability of tax practices found in the Ohio Constitution. Mr. Honeck recommended that the committee recommend the adoption of a constitutional provision that would improve the tax transparency and accountability of certain kinds of tax practices. He indicated that the Ohio tax code contains many tax preferences and exemptions which he referred to as "tax expenditures." He explained that the credits, exemptions, and deductions in the tax code can be viewed from different perspectives.

The first perspective would be to view the credits, exemptions, and deductions as nothing more than their title would indicate, as tax credits, exemptions, and deductions.

From another perspective the credits, exemptions, and deductions can be viewed as a type of expenditure; more specifically, a “tax expenditure.” Mr. Honeck explained the reason these credits, exemptions, and deductions would be referred to as tax expenditures, is because “they can sometimes substitute for line item appropriations that would accomplish the same purpose.”

Mr. Honeck indicated that the Tax Policy Center defines “tax expenditure” as a revenue loss attributable to tax provisions that often result from the use of the tax system to promote social goals without incurring direct expenditures. How tax expenditures are structured affects both those will benefit from them and how much they will reduce federal revenues.

He testified that this type of “tax expenditure” is not included in the state’s budget bill. Mr. Honeck proposed the following constitutional provision be adopted in hopes of changing this: “Any tax credit that is refundable or allows a carry forward of an unused portion of the credit to a new tax year is subject to Article II, Section 22, and its cost shall be accounted for in the general revenue fund of the state, unless its sole purpose is to reconcile payments made by individuals and pass-through entities in which the individuals have an ownership share.”

Mr. Honeck pointed out that this language would mandate the use of the General Revenue Fund (GRF) for carry forwards and refundable credits. He believes that using the GRF will make it more likely that policymakers and the public will take a closer look at the credits and evaluate their effectiveness.

Article II, Section 22 of the Ohio Constitution states: “No money shall be drawn from the state treasury, except in pursuance of a specific appropriation, made by law; and no appropriation shall be made for a longer period than two years.”

After his presentation, members of the committee asked several questions. Most pertained to the effects the proposed provision would have on the GRF. Mr. Honeck stated he believed that the provision would add moneys to the GRF.

A follow up question concerned whether there would be calculations that would become “out of whack” because of the inflated numbers. Mr. Honeck stated that the 5% debt limit would increase. He also explained that some calculations would need to be reviewed.

He was also asked if there is an expenditures commission that could look into the credits, exemptions, and deductions more thoroughly or if the creation of such a commission would be helpful. It was noted that the 5% debt level that the state has would be increased as a result of this change and that the Office of Budget and Management should be able to comment on this language proposal before it is considered.

A committee member commented that the General Assembly may proceed with line items as they normally do despite this provision. Mr. Honeck agreed and intended the language to be self-policing. He was then asked if anything like his proposal has been introduced in legislation as a possible statute. He responded that to his knowledge such legislation has not been introduced.

Adjournment:

With no further business to come before the committee, the meeting was adjourned at 10:47a.m.

Attachments:

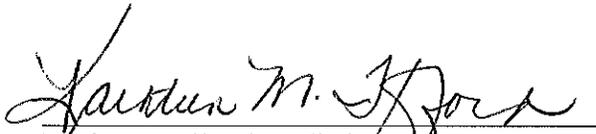
- Notice
- Agenda
- Roll call sheet
- Biographical sketch of Jon Honeck
- Prepared remarks of Jon Honeck

Approval:

The minutes of the September 11, 2014 meeting of the Finance, Taxation, and Economic Development Committee were approved at the January 15, 2015 meeting of the committee.



Douglas R. Cole, Chair



Karla L. Bell, Vice-Chair