

Testimony on HB 49
Lee Beall, CPA on behalf of
The Ohio Society of CPAs
For
The Ohio House Finance Committee
March 29, 2017

Chairman Smith, Vice Chair Ryan, Ranking Member Cera and members of the House Finance Committee, thank you for this opportunity to speak on behalf of The Ohio Society of CPAs (OSCPA) in favor of the municipal taxation changes contained in House Bill 49. I'm Lee Beall, an Ohio CPA and executive vice president and board chair of Rea & Associates, a regional accounting firm with offices in 11 cities across the state (Cambridge, Coshocton, Dublin, Lima, Marietta, Medina, Mentor, Millersburg, New Philadelphia, Wooster and Zanesville). Our firm employs over 200 accounting professionals and serves thousands of clients. OSCPAs is a community of 24,000 members, leading important initiatives that protect the public and create a healthy and sustainable business climate in Ohio.

Five elements are widely accepted as key tenets of a quality tax system: competitiveness, simplicity, stability, equity/fairness and neutrality. There are also two key cost components associated with tax policy that should be considered: the tax rates themselves and the compliance costs, impacting both taxpayers and government entities receiving tax dollars. These principles provide the basic standard for reforming and modernizing Ohio's tax laws and should be considered as you decide how best to design our state's tax structure under House Bill 49 and for the future. These tenets also guided our Ohio Tax Reform Task Force when we issued our recent white paper report, "Improving Ohio's Tax Climate."

Where Ohio's major state taxes are concerned, we support further reducing the personal income tax rate to make our state more competitive – but only if it can be done through a reduction in spending or by eliminating related tax expenditures. The Society supports the consolidation of Ohio's nine income tax brackets down to five, which should bring greater simplicity and lead to better compliance. We also support keeping the sales tax at its current rate and base. And we appreciate Governor Kasich's proposal to keep the CAT at a single rate of .26% and to keep the base broad.

Today, however we want to focus our comments on one of the most impactful changes you can make to save taxpayers significant time and money on compliance costs: centralized collection and administration of city and village net profits tax.

OSCPA strongly supports Governor Kasich's common-sense provisions centralizing collection and administration of municipal net profits tax. Over 600 cities and villages assess an income tax in two ways: 1) on individuals living and working within its boundaries (individual income tax), and 2) on businesses providing goods or services within its boundaries (net profits tax). HB 49 impacts just the net profits tax.

As a leading member of the Municipal Tax Reform Coalition, which represents 31 statewide and regional associations, OSCPAs knows firsthand that Ohio is at a significant disadvantage regarding municipal income taxes since only 10 other states have a system whereby cities and villages can assess tax both where you work and live. OSCPAs's primary concern is the compliance cost associated with filing in multiple jurisdictions.

The centralized collection proposal in HB 49 applies solely to the business net profits tax, estimated by the Ohio Department of Taxation (ODT) to produce on average just 14% of total municipal income tax collections. As a result, the typical municipality would retain direct control over the remaining 86% of their income tax revenue, usually derived from employee withholding. While it's true that current law allows taxpayers to file net profits returns and make payments via the Ohio Business Gateway (OBG), each return must be filed individually and paid separately, and taxpayers are required to mail proof of the filings to each tax administrator anyway. As a result, most don't use it for net profits filings. HB 49 seeks to streamline the process by having businesses file just one form and make a single payment online through OBG, and provides for the necessary funding to make the needed IT changes.

While the amount of tax businesses owe will not change, centralized collection will significantly cut down on the paperwork burden, allowing business owners to devote the significant time and money now spent on compliance with multiple different cities instead to growing their business. Further, having the ODT administer the net profits tax for cities and villages will ensure consistency and predictability of treatment. Speaking on behalf of my firm and the clients we serve, it makes no sense for business owners to be forced to continue to spend so much money to accounting professionals like me to prepare dozens of separate city net profits filings and arrange for dozens of separate payments. It's such a waste of time and money – resources that would be much better used growing Ohio businesses than on red tape compliance.

OSCPA also supports the provision eliminating municipal "throwback" rules, which states that sales of goods shipped to a customer in another tax jurisdiction where the seller does not have an employee that regularly engages in the solicitation of sales are "thrown back" to the jurisdiction from which the goods are shipped. An example would be a distribution warehouse like Amazon mailing goods to someone's home.

Please know that The Ohio Society of CPAs and I stand ready to work with members of the Ohio General Assembly and the Kasich Administration on your ongoing effort to make Ohio a destination state for employers and skilled workers alike. I appreciate your time, and would be happy to answer any questions you might have.