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Statement of David Laing, Director of Legislative Affairs for
Cincinnati Mayor John Cranley
On Behalf of the City of Cincinnati
To the House Ways & Means Committee
House Bill 49 – Main Operating Budget
Tuesday, March 7, 2017

Chairman Schaffer, Ranking Member Rogers and Honorable Members of the House Ways and Means Committee, my name is David Laing, Director of Legislative Affairs for Cincinnati Mayor John Cranley. I write today in opposition to the proposed centralization of municipal income tax collections and the proposed throwback rule in the proposed FY18-19 budget and urge you to remove them.

The City of Cincinnati strongly opposes these measures because they threaten significant financial harm to the City's budget and impose an unproven and inefficient State portal in place of efficient and proven local control of municipal income tax collection.

The proposed budget would centralize municipal income taxes, charge a 1% administrative fee, and make quarterly disbursements of the funds to each municipality. The proposed centralization negatively impacts the City's budget in several ways. First, the 1% administrative fee outstrips the cost to the City of collecting its own taxes by \$340,000 per year. Second, the State Department of Taxation is unlikely to perform the high quality review of the City's unique tax structure that is currently performed by the City's Tax Division. The City anticipates this will negatively impact municipal revenues by \$725,000. An estimated loss of at least \$400,000 in revenue collected annually from adjustments and assessments, an additional \$250,000 in reductions to credits, transfers and refunds, and an additional \$75,000 from new businesses identified through our discovery projects. Third, the quarterly disbursements will disrupt the City's liquidity and require it to more stringently structure its financial transactions, while depriving the City of collecting full interest on its deposits.

In exchange for the smooth functioning of the City's present scheme, the budget proposes that all business withholding be filed with the Ohio Business Gateway. The ability to file business withholding taxes with the Ohio Business Gateway has been available since 2003, yet only an estimated 25 of 13,000 Cincinnati based businesses have opted to use the Ohio Business Gateway. Moreover, 60% of Cincinnati businesses opt to allocate 100% of their income to Cincinnati, while the remaining 40% will still bear the burden on the Apportionment Formula for minimal benefit. Additionally, any disputes or inquiries will be directed to Columbus instead of to the local Tax Division which is available in-person, via phone, and online during regular business hours with local knowledge and ready access to records. Given the natural advantages of the *status quo* it makes little sense to opt for an unproven system that will reduce local revenues in exchange for no appreciable benefit to the State, its citizens, or its businesses.

The City of Cincinnati also strenuously opposes the so-called 'throw-back rule,' which would change the sales portion of the three step allocation formula used to source a business' net profits to where the services are performed. The throw-back rule was originally proposed in 2014 as part of HB 5. The projected cost to the City is \$500,000 to \$750,000.

Due to the total negative impact to the City of Cincinnati's budget of \$1.8M and that there exists minimal benefit to the State or businesses, we strongly urge you to reject the centralization of municipal income tax collection and implementation of the throwback rule.