

Written Testimony  
The Ohio Society of CPAs  
For  
The Ohio House Ways & Means Committee  
March 7, 2017

Chairman Schaffer, Vice Chair Scherer, Ranking Member Rogers, and members of the Ohio House Ways & Means Committee, thank you for this opportunity to share The Ohio Society of CPAs (OSCPA) proponent testimony on House Bill 49. I'm Megan Durst, CPA, and I serve as the Chair of the Society's State and Local Tax (SALT) Committee. 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*. In addition, it is important to note that there are two key cost components associated with tax policy: the tax rates themselves and the compliance costs, especially municipal complexity, impacting both taxpayers and government entities receiving tax dollars. These principles provide the basic standard for the consideration of 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."

#### **PERSONAL INCOME TAX**

The Society supports the consolidation of Ohio's income tax brackets. Thirty-three states have a multi-bracketed system, ranging from as few as two rates to as many as ten brackets. Ohio's graduated personal income tax system is on the high end with nine income tax brackets. Our task force report recommended that Ohio move to three–five brackets. Reducing the number of brackets should bring greater simplicity to the personal income tax structure, leading to better compliance. Another plus is the reality that Ohio likely will score better on national taxation ratings. Groups such as the Tax Foundation negatively rate Ohio's income tax for having nine brackets and national site selectors refer to those rankings when evaluating possible expansion locations.

OSCPA has previously expressed significant concern about efforts to pay for a lower personal income tax rate by tax shifting: raising other taxes such as the sales/use tax and CAT, or through broadening the sales tax base. Doing so will reduce competitiveness by increasing the cost of Ohio-provided services that can be easily purchased in another state without such a tax.

#### **MUNICIPAL INCOME TAX**

OSCPA strongly supports the 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). Collection generally occurs through the payroll withholding tax and related filing requirements processed by businesses for individuals they employ (plus any payments due directly from individuals who are self-employed), and the net profits tax assessed on business entities.

As a leading member of the Municipal Tax Reform Coalition, OSCPA 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. OSCPA'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. Even though current Ohio law allows taxpayers the option to file net profits returns and make payments via the Ohio Business Gateway (OBG), each return must be filed individually and paid separately, and many cities require separate proof of the filing to be mailed to them anyway. HB 49 seeks to streamline the process by having businesses file just one form and make a single payment online through OBG. While the amount of tax they 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.

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.

#### **COMMERCIAL ACTIVITY TAX (CAT)**

The Society supports the status quo on the CAT rate for Ohio businesses in HB 49. OSCPA has a longstanding position that the CAT is effective as long as the following criteria remain intact: the rate is low, the base is broad, the exemptions are few and compliance is simple. The primary benefit of Ohio's approach is the uniform, low rate of 0.26%, which mitigates the concern about pyramiding. If Ohio bifurcates or increases its rate, the effect would become even more burdensome. The higher the rate, the more dramatic the problem is with the CAT's pyramiding structure. A major reason why the CAT rate has remained low is that the base is very broad, as intended from inception. Therefore, exemptions must be limited because tax expenditures affect CAT revenues. OSCPA supports the commitment when the tax was first passed in 2005 to a broad base, limited exclusions and a low rate.

#### **SALES & USE TAX**

As a member of the Ohio Service Industry Coalition (OSIC), OSCPA opposes the proposed sales and use tax rate increase and base expansion to other services. In comparing the sales and use tax rate to other states, the 5.75% state rate ranks Ohio in the middle of the pack of all states (27<sup>th</sup>). However, when the average county and transit authority local sales tax rate of 1.39% is added, Ohio jumps to the 19<sup>th</sup> highest combined sales and use tax rate (7.14%) in the country and the highest among our neighboring states.

During the past two biennial budget proposals, OSCPA has strongly opposed the expansion of the Ohio sales and use tax base to include professional services. OSCPA applauds the General Assembly for

declining to expand the tax base to include these services in the past. The challenges are many when expanding the sales tax to include professional services: 1) the competitive disadvantage small businesses would face compared to larger companies since they typically cannot afford to have full-time professional staff and must hire firms to provide those services; 2) Ohio should avoid driving business away from our state because of the reality that many services are highly mobile in nature, meaning they can be easily provided digitally or electronically from virtually anywhere in the world; and 3) sourcing rules present a significant challenge.

Adding sales tax to sales on professional services will significantly drive up the cost of goods made in our state, as well as services provided by professionals in Ohio. This change will make Ohio-based business operations less competitive when compared to almost all other states.

### **SUMMARY**

The Ohio Society of CPAs stands ready to work with members of the Ohio General Assembly and the Kasich Administration on the important, ongoing effort to make Ohio a destination state for employers, as well as the skilled workers they need to thrive.

Thank you again for this opportunity to offer proponent testimony on House Bill 49. I'm available to answer any of your questions.