



February 27, 2017

TO: Members of the Ohio House

FROM: Municipal Tax Reform Coalition

On behalf of the 31 members of the Municipal Tax Reform Coalition, collectively representing several hundred thousand employers and professionals in Ohio, we are writing to share our support for two municipal income tax proposals contained in H.B. 49: 1) centralized collection of the municipal net profits tax, and 2) elimination of the municipal “throwback” rule. Despite significant progress made in H.B. 5 (130th GA) to address long-standing problems in Ohio’s municipal tax system, it remains costly and cumbersome as businesses still are forced to comply with hundreds of different local tax systems.

Ohio law permits municipalities to assess an income tax in two ways: 1) on individuals both living and working within its boundaries (individual income tax), and 2) on businesses providing goods or services within its boundaries (net profits tax). Almost 600 cities and villages do so. The centralized collection proposal in H.B. 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 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.

The proposal does not impact the tax rates or credits of cities and villages, but rather seeks to minimize the compliance costs associated with filing in multiple jurisdictions. This problem is a reality because all businesses must make net profits filings to each city or village where they have provided a service or good, even if a single employee worked there for just one day. Therefore, the Governor’s proposal of centralized collection and administration for business filers would significantly save taxpayers’ time, cost and effort involved with multiple net profit return filings. Further, the ODT estimates that Ohio communities would save a collective \$9 million a year in administrative costs.

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 proof of the filing to be mailed to them anyway. H.B. 49 seeks to streamline the process by having businesses file just

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one form and make a single payment online through OBG, with ODT processing payments and distributing revenues back to the appropriate local government, just as ODT does for county sales taxes, school district income taxes, and municipal electric, light, & telephone companies. This is an important step toward bringing common sense to an arcane system.

The second proposal that we support is eliminating the municipal “throwback” rule. This outdated rule requires 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 (e.g., internet sales companies) are “thrown back” to the jurisdiction from which the goods are shipped. This practice discourages economic development in our state, as companies can easily locate in another state whose cities do not impose this punitive tax.

Ohio’s business community strongly encourages you to help eliminate the red tape in our state and attract and retain job creators by supporting these important changes.

Sincerely,

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