

Senate Ways & Means Testimony  
Mark A Watkins, Vice President – Finance  
Group Management Services, Inc  
September 27, 2017

Chairman Eklund, Vice Chairman Terhar, Ranking Member Williams and members of the Senate Ways and Means Committee, my name is Mark Watkins. I am the Vice President of Finance for Group Management Services, Inc. (GMS). Thank you for allowing me to speak in favor of SB186.

GMS is a Professional Employer Organization based in Richfield, Ohio. We are one of the leading PEO's in Ohio with over 1100 clients and 21,000 work site employees. We provide human resource services to small businesses in Ohio, many of them incubating out of the garage and hiring employees for the first time. A typical client has 17 employees. We help our clients with all of the regulatory aspects of having employees, as well as providing payroll services.

Angry phone calls have come to me from our clients who chose to form their small business as a Sub-S Corp, and have recently been hit with tax due notices from the Ohio Department of Taxation. ODT is telling them they are not eligible for the business income deduction – a deduction they have claimed since its availability in 2013. They are angry because if they had not chosen the PEO business model, they would not have been hit with additional taxes. In addition, if they had gone with a PEO, but opted to form their small business as a single member LLC or as a partnership, they would not have been hit with the tax due notice.

Angry phone calls have come to GMS because we did not inform the Sub-S owners of the additional tax bite if they adopt the PEO business model. We couldn't because we weren't aware. To our knowledge, there wasn't any discussion of this when the legislation creating the deduction was passed. Nor did we have the expectation that the 2013 tax statute would treat clients who are Sub-S owners any differently than other forms of pass through entities. Our confidence in a level playing field is placed in ORC 4125.042 that reads:

For purposes of determining tax credits and other economic incentives that are provided by this state or any political subdivision and based on employment, shared employees under a professional employer organization agreement shall be considered employees solely of the client employer.

Our clients have been told by the ODT Audit Department that the applicability of this statute is a stretch. We believe that it was the intent of the legislature that a level playing field applies. SB 186 resolves the issue and levels the playing field for these small businesses.

From our vantage point, we witness and assist the incubation of small businesses by the owner/entrepreneur. Much is written about employees living pay check to pay check. From our vantage point, we witness small businesses living payroll to payroll – having enough cash to make payroll. Ohio's small business tax strategy is essential to these small businesses. SB186 would ensure that this applies to all small businesses. Thank you again for the opportunity to testify and I respectfully ask for your support of SB186.