



INTRODUCTION

Chairman Oelslager, Vice-Chair Scherer, Ranking Member Cera, and members of the House Finance Committee: my name is Jeff McClain, Tax Commissioner for the Ohio Department of Taxation.

Thank you for the opportunity to testify today on the tax proposals that are included in Governor Mike DeWine's Fiscal Year (FY) 2020-2021 budget.

Lead Abatement Tax Credit – Governor DeWine has been vocal about family safety and protecting Ohio's youngest and most vulnerable citizens. Continuing his efforts in Congress, Governor DeWine's proposal creates an application and certificate program for the Ohio Department of Health to grant an income tax credit for individuals who incur expenses for lead abatement activities. This program also creates a nonrefundable credit against the Ohio Personal Income Tax for said taxpayers. If the amount of the credit is greater than a taxpayer's liability, the credit may be carried forward for up to seven taxable years. The credit shall be equal to the lesser of the lead abatement costs incurred on the eligible dwelling or \$10,000.

Opportunity Zones -- The 2017 federal Tax Cuts and Jobs Act included the Opportunity Zone program. Working with communities across the state and the U.S. Treasury, Ohio established 320 Opportunity Zones in low-income, high-poverty census tracts. The zones have a high potential for job creation, a vision for new investment, and possibilities for development.

Governor DeWine has included a 10% nonrefundable state income tax incentive in this budget to further draw on those investments to Ohio communities. This new credit is carved out of the budget of an existing but under-utilized tax credit (InvestOhio).

Municipal Net Profit Negative Distribution Repayment – I am happy to report that the centralized collection of the Municipal Net Profit Tax is off to a successful start in its first year, and we are entering

our second season. We now have approximately 3,600 companies using the centralized filing system and we expect that number to grow. Taxpayers can file the annual tax return and declaration of estimated taxes electronically through the Ohio Business Gateway or through Modernized e-File (MeF) with an approved software vendor. Please be assured that the Department of Taxation is committed to ensuring that all municipalities receive every dollar that they're entitled to, while also making sure that business taxpayers don't make municipal net profit tax payments in excess of what's required.

ODT recently asked the Controlling Board to request funds to cover an over-distribution issue that was overlooked as the original legislation was changed in the last budget from a mandatory filing system to an opt-in program. The Controlling Board transfer of cash into the municipal income tax fund simply allows monies to be allocated to the appropriate municipalities in a timely manner.

Taxpayers using the centralized system make payments based on their combined annual estimated tax liability, meaning the total estimated annual tax liability for all municipal corporations in which the taxpayer has business. Taxpayers make one payment each quarter toward that combined estimated annual liability. The state system distributes the money as directed by the taxpayer to the appropriate municipalities. In some instances, a taxpayer may estimate high in one city and low in another and need to adjust that in subsequent quarters. As the year goes by, the actual amount of tax owed becomes clearer, but ultimately, with filing extensions, it can take up to 18 months for the true tax liability to be determined. Once the true liability for a previous year is known, taxpayers often make adjustments to current year declarations, typically in the fourth quarter.

Right now, the only way to compensate for overpayments to a city is for the state to hold off on any additional payments to that city until the amount of money that city has received equals the amount of money it is actually owed. When you hear about a "negative tax distribution", it really means the city has received too much money from one or more taxpayers in prior distributions.

The state system has to balance on two fronts: 1) it has to match up estimated payments to a city with the actual estimated tax liability; and then 2) it has to balance the totality of all payments into the system with all of the necessary distributions. In that grand mix, when some cities receive too much money, there's not enough left to make complete distributions to other cities. That's why we went to

the State of Ohio Controlling Board to borrow two million dollars: to cover required distributions until final returns are filed and the system can reconcile itself.

That's also why we are seeking a law change that will require municipalities to return excess payments to the state within 30 days. We are rightfully focused on getting revenue to municipalities in a quick and efficient manner; likewise, taxpayer overpayments should be returned in a similar fashion. That will make the entire system run more smoothly. In the event the municipality fails to repay the state in the prescribed time, the language allows the tax commissioner to deduct the amount owed from the next distribution.

Municipal Net Profit and Municipal Electric Light and Telephone Companies – Language included in the operating budget creates a separate Municipal Net Profit Tax Fund to receive revenue from the centralized collection system. Under current law, the revenue is deposited into the Municipal Income Tax Fund, which also receives revenue from the state administered municipal income tax on electric and telephone companies.

Chairman Oelslager and members of the House Finance Committee, I am greatly appreciative of your time and would be happy to answer any questions you may have.