

Testimony before the Ohio Senate Finance Committee  
May 23, 2019  
Don DePerro, President & CEO  
Columbus Chamber of Commerce  
H.B. 166: Business Income Deduction

Chairman Dolan, Vice Chair Burke, Ranking Member Sykes, and Members of the Senate Finance Committee:

Thank you for the opportunity to provide comments on the House-proposed changes to the business income deduction.

I am Don DePerro, President & CEO of the Columbus Chamber of Commerce.

Founded in 1884 and having just celebrated our 135<sup>th</sup> year in existence, the Columbus Chamber of Commerce (Chamber) is the leading voice of business within the 11-county Columbus region, representing nearly 2,000 members employing over 500,000 workers. While most of the largest companies in town are investors in our Chamber, more than 80 percent of our members have less than 100 employees, and it is through the lens of the small business owner that we review and advocate on legislation.

The Chamber would like to express serious concern with provisions of House Bill 166 (H.B. 166) added by the House to reduce the business income deduction from \$250,000 to \$100,000 and eliminate the 3% cap on pass-through income above the deduction. These changes amount to an estimated tax increase on Ohio small business owners of more than \$1 billion.

These changes will have a significant negative impact on legitimate small businesses that are the backbone of our economy. And our economy is strong right now. National unemployment rates are at record low levels, with the Columbus Metropolitan Statistical Area currently sitting at 3.4%. GDP growth has exceeded expectations and Ohio income tax collections are up. We must focus on policies that continue this momentum, rather than hindering it.

Ohio must maintain a competitive tax structure to entice new enterprises, preserve currently operating firms, attract and retain top talent, and incentivize individuals to start a business. While we support efforts to lower Ohio's income tax rates, the overall proposal to pay for the reduction by increasing taxes on the business sector is counterproductive to fostering a strong economic climate that drives jobs, innovation, and entrepreneurship.

The flat 3% rate on business income above the threshold makes Ohio competitive against the business income rates of surrounding states, with Indiana at 3.23% and Pennsylvania at 3.07%. Increasing Ohio's rate to 4.667% would put us significantly above those in addition to Michigan at 4.25%. That increase would be on top of Ohio's complex municipal income tax system that creates an additional unwanted layer of taxation.

To address concerns that this deduction is not being utilized in the manner in which the legislature intended when enacting it: we have received a number of testimonials from small business owners that rely on the deduction to reinvest the saved dollars into their business and their workers, which are attached at the end of this document. These are hardworking individuals that want the best for their families and their workers. Our members have demonstrated that this money appropriately goes towards training their workers, paying higher wages, hiring additional employees, purchasing new equipment, upgrading technology, and giving back to the community.

Furthermore, small business owners are frequently mischaracterized as “wealthy.” While their tax returns may indicate that they fall within the higher income tax brackets, that is simply because their business income passes through and is aggregated as total income. These figures are not necessarily commensurate with take-home wages, and according to the U.S. Small Business Administration, the median income for small business owners in Ohio is between \$34,000 and \$75,000. A businesses owner’s personal salary is often one of the last items paid out and the first items to be cut during hard times.

And finally, the retroactive nature of the proposal will be particularly harmful, as businesses conduct financial planning at least one year in advance. This information is used to calculate estimated tax payments and determine how much cash flow they have to reinvest back into their business. If the proposal were to go into effect, it could throw off budget projections and business operations for at least tax years 2019 and 2020.

For the aforementioned reasons, the Columbus Chamber requests the Senate protect Ohio’s small business owners by eliminating all House-proposed changes to the business income deduction.

I would be happy to answer any questions you may have.

Thank you.

1.

*I started my business 22 years ago and through pretty rough odds have built my business into a profitable small business that exceeds the profit thresholds under consideration in the House proposal. It took me many years to get this stage, years that I sacrificed by investing back in my business rather than in myself, my savings and my future. I did this for my team and to build something that was bigger than just a job or a paycheck. I wanted to create a place that Ohioans could work in the hospitality industry and feel pride in their work and sense that they could be successful in what many people consider a stepping stone or a pass through job. I've done this by reinvesting profits, even when meager and well below the thresholds, so that the business could thrive, grow and employ more people. I am still investing profits in my business to support things like coaching and training so that people, particularly women, on my team can make up ground in earnings and achieve a level of success that they may not have in an organization that cares more for the bottom line. For 10 years I barely paid myself enough to keep afloat and now that I have some measure of success I have chosen to invest in others. By repealing the BID I will have less cash to help develop leaders in an industry that adds millions to our state economy yet traditionally pays a non-living wage.*

-Owner of catering and food industry business

2.

*If this bill passes, we would lose \$23,000 or more this year according to my accountant. For our business, we are interested in growth and our capital is being spent on more people, more equipment and more community giving. This \$23,000 represents a full-time hourly worker, yearly salary increases for 10 operations personnel, or purchasing another truck.*

-Owner of multi-chain retail establishment

3.

*When the Business deduction started I used the additional funds to increase the training to our staff. The additional funds were used to expand our in-house development program. We believe in investing in our employees to enhance the workforce.*

-Owner of accounting and business consulting firm

4.

*The following table provides a brief description of my scenario - a young business owner pouring a lot into their business and not just lining my pockets. Our sales have increased 312% while my personal income has increased 35%. It takes SO much cash to grow a business like we are. Any additional taxes suck the life out of us and slows down what I can do for my employees.*

-Owner of creative studio business

|                             |  |
|-----------------------------|--|
| 2017                        | Current  |
| \$485k in revenue           | \$2 million in revenue   |
| 6 full-time employees       | 12 full-time employees   |
| No benefits                 | Offer health benefits and cover 60% of cost<br>In process of adding retirement plans |
| No professional development | Budgeting nearly \$10k/year into professional development                            |

5.

*As a small business S-Corp, we are unfairly treated in many ways:*

- *Cannot deduct legitimate insurance expense as an owner/employee*
- *We receive no tax incentives for growth of jobs, we receive no training credits*
- *We are challenged to be able to compete with big business and government on benefits and salaries*
- *We work 60 hours a week at a minimum because we cannot afford other resources*
- *We are burdened with government reporting*
- *Most of the time we just feel as though we are drowning and wondering if it is even worth it*
- *Makes me want to throw in the towel and just serve my existing clients and not work so hard to grow*

*Way in which our organization has benefitted from the tax deduction:*

- *We increased salaries to retain tenured staff*
  - *We are paying higher salaries for new positions we have hired*
  - *We added to our benefits package to attract and retain talent*
  - *We hired a consultant for the first time to help us with business growth*
  - *We are working with a recruiter – something we could not justify cost of doing before, to hire two more staff positions to lessen the burden for our small team*
  - *We were able to have a more optimistic outlook to getting our head above water and re-energized that perhaps it is worth it*
- Owner of marketing and PR agency*