



TO: Chairman Faber and Ranking Member Patterson
FROM: Bonnie D. Michael, President of Worthington City Council
RE: Opposition to Central Collection of Municipal Net Profits Tax
DATE: March 14, 2017

On behalf of the City of Worthington City Council, I am providing written testimony in opposition to State Collection of Income taxes for a myriad of reasons that are included herein. Our entire City Council asks that you leave local income tax collection to local governments.

The current proposal to have the State of Ohio collect taxes on net profits would 1) directly and negatively impact our city's cash flow; 2) hamper the city's ability to audit for compliance; 3) reduce access to information that cities need; 4) as currently written, reallocate the interest earnings that now come to our city to the State of Ohio, and 5) will cost our city of 14,000 residents approximately \$23,000 in ADDITIONAL FEES. We strongly believe the proposal should be rejected based on these reasons.

Additionally, I would like to emphasize a few reasons why we think this proposal is flawed public policy:

1. **HB 49 will take MORE funds away from Cities.**

- a. The 1% proposed fee for collection is more that cities are currently paying. RITA cities pay on average .21 % and the City of Dublin is paying .8% for the collection of taxes on net profits. And, there is no guarantee that the rate will stay at 1%. The loss per year from just these two cities is estimated to be \$123,000 per year.
- b. The collection fee will be deducted from the amount of tax paid to the municipalities. **This violates local tax ordinances that specify how these monies are to be utilized.**
- c. If a taxpayer requests a 100 percent refund of estimated payments made to the municipality, the 1.0 percent fee would have to be paid from another source since the municipality did not receive 100 percent of the tax.

- d. Net-profit estimated payments, returns and assessments will be distributed every quarter. As written, **the state will collect the money for the first quarter, but it won't be distributed until the end of the second quarter.** This new system is a degradation of many cities cash flow management systems, which count on receiving deposits between daily and monthly.
- e. It is possible that moving to a quarterly payment schedule could cause some cities to have to borrow money for operating costs, (as an expense to the City) or miss bond payment due dates because of cash flow, **thereby** negatively impacting the bond rating and costing cities more to provide the same services and facilities to their residents.
- f. Most bond companies give high bond ratings to Ohio cities, such as Worthington, because we do an excellent job of managing our financial resources. With a state collection mechanism, and loss of local control and auditing power, this new collection system could jeopardize bond ratings and thereby cause cities to have to pay more for interest costs. This would reduce funds available for investing in infrastructure, which is a critical need in Ohio.
- g. Cities have been on the State cutting block for too long. We have lost half of the Local Government Funds we once received plus Estate taxes and Tangible Personal Property taxes. Taking away interest earnings while at the same time increasing the cost to cities for collection of taxes on net profits is an unacceptable double whammy on cities that have already had TOO MANY CUTS.

2. HB 49 Violates Ohio Law

- a. Ohio Supreme Court decision *Angel v. City of Toledo* re-affirmed a municipal right to levy a local tax. There is nothing that allows the State to collect such a local tax.
- b. Ohio District Court case *All American Foods Inc. v. City of Springfield* provides that local taxation is considered to be a "policing power" under the State of Ohio Constitution. Only municipalities can levy and COLLECT local income tax.

3. HB 49 is Contrary to Voters Decisions

- a. Our voters have voted to increase their income tax rates in order to continue to receive high quality City services. They did NOT vote to have their local tax funds go to the State for unnecessary administrative overhead and expanding the size of a state agency.

4. HB 49 is Contrary to Home Rule and Causes a Lack of Local Control

- a. Very little auditing would be performed by Ohio Department of Taxation (ODT) compared to local jurisdictions. Since the ODT has not audited the franchise net-profit returns in nearly a decade, we anticipate a significant lack of expertise in the auditing of municipal net-profit returns.
- b. Appeals would be handled by ODT instead of Municipal Boards of Review.
- c. The effective management of economic development incentives would be diminished since a municipality would be unable to verify business information provided nor be able to project future revenue.
- d. The State will increase staff while local jurisdictions' costs will increase because of the fee and the lack of auditing.
- e. Cost will ultimately be passed on to local residents.

For all of the above reasons we ask you and your committee to reject the proposal for State collection of municipal net profits taxes by removing it from HB 49.

Respectfully Submitted,



Bonnie D. Michael, President
City of Worthington City Council