

Written Proponent Testimony

The Ohio Society of CPAs

The Ohio House Finance State Government and Agency Review Subcommittee

March 22, 2017

Chairman Faber, Ranking Member Patterson, and members of the Ohio House Finance State Government and Agency Review Subcommittee, thank you for this opportunity to share The Ohio Society of CPAs (OSCPA) proponent testimony on the municipal income tax reform proposals contained in House Bill 49. I'm Greg Saul, Director of Tax Policy for the Society. OSCPAs is a community of 24,000 members, leading important initiatives that protect the public and create a healthy and sustainable business climate in Ohio.

OSCPA strongly supports the provisions centralizing collection and administration of municipal net profits tax. Over 600 cities and villages assess an income tax in two ways: 1) on individuals living and working within its boundaries (individual income tax), and 2) on businesses providing goods or services within its boundaries (net profits tax). Collection generally occurs through the payroll withholding tax and related filing requirements processed by businesses for individuals they employ (plus any payments due directly from individuals who are self-employed), and the net profits tax assessed on business entities.

As a leading member of the Municipal Tax Reform Coalition, OSCPAs knows firsthand that Ohio is at a significant disadvantage regarding municipal income taxes since only 10 other states have a system whereby cities and villages can assess tax both where you work and live. OSCPAs's primary concern is the compliance cost associated with filing in multiple jurisdictions.

The centralized collection proposal in HB 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 income 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. 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 taxpayers are required to mail proof of the filings to each tax administrator anyway. HB 49 seeks to streamline the process by having businesses file just one form and make a single payment online through OBG. While the amount of tax they owe will not change, centralized collection will significantly cut down on the paperwork burden, allowing business owners to devote the significant time and money now spent on compliance with multiple different cities instead to growing their business. Further, having the ODT administer the net profits tax for cities and villages will ensure consistency and predictability of treatment.

OSCPA also supports the provision eliminating municipal "throwback" rules, which states 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 are "thrown back" to the jurisdiction from which the goods are shipped. An example would be a distribution warehouse like Amazon mailing goods to someone's home.

The Ohio Society of CPAs stands ready to work with members of the Ohio General Assembly and the Kasich Administration on the important, ongoing effort to make Ohio a destination state for employers, as well as the skilled workers they need to thrive.

Thank you again for this opportunity to offer proponent testimony on the municipal income tax reform proposals contained in House Bill 49. I'm available to answer any of your questions.