



House Finance Subcommittee on State Government and Agency Review

March 23, 2017

H.B. 49: PROPONENT WRITTEN TESTIMONY ON PROPOSAL TO CENTRALIZE COLLECTION OF BUSINESS NET PROFITS TAXES

The Associated General Contractors of Ohio, Ohio Contractors Association, National Electrical Contractors Association of Ohio, Mechanical Contractors Association of Ohio, and Construction Employers Association express our support of the Governor's budget proposal to centralize the collection of business' net profits tax via the Ohio Business Gateway.

Our associations represent commercial contractors. They build and renovate a wide variety of vertical and horizontal structures such as roads, bridges, schools, manufacturing facilities, water and sewer lines, office buildings, underground utilities, apartments and dormitories, parking structures, and utility and waste water treatment plants... to name a few.

Commercial contractors are primarily small, closely held businesses that work across many municipal jurisdictions. The current municipal tax collection system is extremely burdensome and expensive. Based on the feedback our groups have received, contractors file taxes in anywhere from 15 to 100 different cities – each with their own forms, rules, procedures and appeals processes. They can spend 50 to over 400 staff hours and \$2,000 to \$20,000 in CPA fees to comply with Ohio's current municipal tax code. Oftentimes, the cost of compliance far exceeds the amount of taxes owed.

The municipal net profits tax collection proposal in House Bill 49 would streamline the process by having businesses file one form and make a single payment online through the Ohio Business Gateway, with the Department of Taxation processing payments and distributing revenues back to the appropriate local government. The Department of Taxation currently provides this service for county sales taxes, school district income taxes, and municipal electric, light, and telephone companies.

We are grateful for Governor Kasich's and Commissioner Testa's efforts to simplify the system, and look forward to working the legislature to pass this common-sense reform.

CONTRACTORS COMMENTS ABOUT THE PROPOSAL

The amount of tax returns vary each year based on the location of work, but we usually file around 20 income tax returns for municipalities located in the State of Ohio. On average it takes a minimum of 45 minutes to prepare each return. Then you have to cut the check, copy and mail each return. If you extend the return, it adds more time. Each Municipality could have different rules on how to extend the income tax return. That could take 30 more minutes depending on whether they need a federal extension or their own extension form. Each return could take 1½ -2 hours of combined time for all the people who may deal with the return and check.

We may file in over 70 cities per year. For three quarters of those cities, we typically have to zero file or pay a minimal amount. I estimate that internally/externally we spend around \$15,000 - \$20,000 a year for municipal income tax compliance and returns. We expect this amount to be cut in half, if we have centralized filing with the state for the municipal taxes.

We file about twenty-five net profit tax returns. We have a software program that helps facilitate filing these returns in an accurate and timely manner. With that being said there are costs associated with this software and the substantial time that is still spent preparing, reviewing and filing these returns. I would estimate between three people in our department, we spend about twenty hours calculating, preparing, reviewing and filing these returns with the very expensive software. It took substantially longer prior to acquiring the software program.

A standardized, internet-based process, could eliminate the need for the software and would cut the preparation and processing time down to around six hours with minimal time needed for filing.