May 13, 2019

Dear Chairman Hackett, Ranking Member Thomas, and Members of the Senate Finance Subcommittee on Health and Medicaid:

On behalf of National Taxpayers Union (NTU), the nation's oldest taxpayer advocacy organization, I write to offer our views on the proposed biennium budget. The budget document, House Bill 166, features many promising provisions that will benefit taxpayers, chiefly through targeted tax relief and by modernizing the tax code and broadening the sales tax base. Despite these improvements, NTU is concerned about the size of the overall budget, changes to certain small business tax deductions, and Medicaid reforms that could have unintended fiscal consequences. We are hopeful that our recommendations will lead to a more responsible budget that protects taxpayers, small businesses, and patients.

Tax Cuts Are a Step in the Right Direction

HB 166 offers meaningful tax relief for all Ohioans, especially for those with low and moderate incomes. The plan would eliminate personal income tax for those earning less than $22,500 a year and would cut taxes by 4.7 percent for those earning between $22,500 and $88,800. Eliminating the bottom three tax brackets and slashing rates will allow Ohioians to pocket $300 million in money they would have otherwise sent to the treasury. This tax cut will help Ohio remain competitive with other states that have cut taxes in recent years and strengthen the fiscal condition of the workforce.

While this tax cut is a step in the right direction, lawmakers should do more to lower the burden even further. According to the nonpartisan Tax Foundation, Ohio ranked 36th in the country for individual income tax collections per capita. This tax cut will likely improve Ohio's ranking, but lawmakers should continue to strive to lower state tax burdens as much as possible.

Addressing Inefficiencies in the Tax Code

To make the tax code fairer, the budget proposes to expand the sales tax base to include select goods and services currently granted exemption. If enacted, the sales tax rate would apply to sales of motor racing teams, the purchase of gold coins and bullion, the purchase of flight simulators, aviation repair and maintenance as well as services to maintain and repair fractionally-owned private jets. While on net, removing certain exemptions may be considered a tax increase, broadening the base creates a more stable sales tax, with government out of the business of picking winners and losers through the tax code. To improve this provision, the additional revenue collected via base-broadening should be used to reduce the sales tax rate.

The plan would also eliminate the motion picture tax credit and the political contribution tax credit. When government uses cronyism to benefit special interests, it leaves the rest of Ohio taxpayers holding the bag. This would open up more companies to taxation, thereby raising more revenue that could be used to offer even more tax relief to taxpayers, small businesses, and corporations. Lawmakers should continue to explore ways to reduce taxes by reviewing the merits of each tax credit and sales tax exemption. By doing so, lawmakers can broaden the base and offering more tax relief in the form of lower individual income tax rates or a lower sales tax rate.

Reject Lowering the Small Business Income Tax Deduction

Small businesses are the lifeblood of Ohio's economy and are responsible for the renaissance of entrepreneurship across the state. However, the proposed budget would effectively raise taxes on small businesses owners by lowering the business income tax deduction that permits pass-through entities to pay no income tax on their first $250,000 in income. Under the proposed budget, this deduction would be scaled back to only the first $100,000 in income. Taking capital out of small businesses, will make it harder for job creators to invest in new equipment, expand their business, or hire new workers. **Lawmakers should avoid reducing this deduction amount.**

Spending

The proposed budget includes a 4.2 percent spending increase in Fiscal Year (FY) 2020 over FY2019 as well as an additional 2.8 percent increase for the following year. This spending increase is far above the estimated 1.9 percent annual inflation rate and .67 percent population growth rate in 2019. Instead of proposing spending that outpaces inflation and population growth, lawmakers should embark on reforms to areas of the budget that are the main drivers of spending, like health care, pensions, and salaries.

Reform the Medicaid Program

According to the Buckeye Institute, Medicaid spending is projected to increase to $26 billion by 2021 - a more than 60 percent increase over 2010. This spending trajectory is irresponsible and is likely to cause hard budgetary choices over the next decade. As spending continues to grow at a rapid pace, it reduces the amount of resources that can be used for other priorities in the budget - like education, infrastructure, or other government services. Also, a large portion of that spending is paid for using federal dollars, likely causing crippling deficits if Washington suddenly pulls back Medicaid spending or amends the Affordable Care Act.

Remove International Pricing Index Model

Under current language, the budget requires the Medicaid director to implement an international price index system for prescription drugs if granted a waiver by the Centers for Medicare and Medicaid Services . Implementing a reference pricing system in the Ohio would import disastrous price controls that have caused economic harm in foreign countries, to the detriment of the health care system at large and investments in U.S. research and development. History has proven that price controls on any commodity or service produces unintended but consistently negative effects.

As we've seen in virtually every case, setting price controls at below-market rates leads to shortages, squeezes the cost bubble toward some other portion of the economy, and imposes a deadweight cost on society. In this case, price controls can lead to a reduction in patient access to life-saving drugs, less investment in the research and development of new drugs, and cost-shifting that raises the prices of other therapeutics. Ultimately, patients will suffer as cures are delayed or entirely undeveloped, while taxpayers will be denied potential savings from drugs that could obviate more expensive treatments in government healthcare programs, and the investment of capital in the development of new medicines.

We believe incorporating the aforementioned changes will ensure a more prosperous Ohio and would take better care of every dollar sent to the treasury. Should you, your colleagues, or your staff have any questions or require any other information as you deliberate the fiscal aspects of health care policy, please consider NTU a resource. Thank you for your consideration of our views.

Sincerely,

Thomas Aiello
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