



## **HOUSE BILL 166 – STATE OPERATING BUDGET – TAX PROVISIONS**

### **OPPOSITION TESTIMONY**

#### **OHIO SENATE FINANCE COMMITTEE**

**MAY 23, 2019**

Chairman Dolan, Vice Chair Burke, Ranking Member Sykes, and members of the Ohio Senate Finance Committee, my name is Chris Ferruso, and I am here on behalf of the nearly 22,000 governing members of the National Federation of Independent Business (NFIB) in Ohio to provide our opposition to some changes to tax policy in the Ohio House-passed version of Substitute House Bill 166 (HB 166), the state operating budget. I will focus my testimony on the business investor deduction and the 3 percent flat rate on business income. Thank you for this opportunity.

Just a brief lay of the land from our members' perspective. The NFIB Research Foundation does a monthly Small Business Economic Trends<sup>1</sup> survey of members to ascertain their sentiments on business operations. Our members' optimism has been at nearly all-time highs over these past two years. We see an uptick in the percent of members planning to increase employment and increase employee compensation. Additionally, Ohio's unemployment rate is at an 18-year low. Currently, our members biggest challenge lies in their ability to fill open positions. These indicators are incredibly positive, and we believe the focus of the legislature should be to help ensure this upward trend continues.

Concerning Governor DeWine's as introduced version of the state's operating budget, it was welcome in that it focused on stability and predictability by avoiding major tax or regulatory policy changes.

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<sup>1</sup> <https://www.nfib.com/surveys/small-business-economic-trends/>

However, we were taken aback when the Ohio House passed a massive tax increase on Ohio's entrepreneurs and job creators in HB 166. The predictability and stability I just mentioned vanish for some small businesses by the provision to reduce the Business Investor Deduction (BID) and eliminate the flat 3 percent rate on business income. Over the past few years, the BID has sent the signal Ohio appreciates and acknowledges the contributions small businesses provide to our communities and Ohio's economic success. Small businesses employ nearly half of Ohioans in the private sector. Small businesses also create the majority of new jobs.<sup>2</sup> Small businesses are active in their communities sponsoring little league teams and various other events in their local areas. Small businesses are reinvesting in and expanding their operations in hopes of keeping their businesses growing and successful. When our members are successful, their employees benefit as well.

I ask all of you to consider what this proposal means to a typical small business. If the proposal in HB 166 remains, this means entrepreneurs will pay tax on a larger share of their business income. Tax reform of the mid-2000s brought about necessary changes to Ohio's outdated tax structure. However, while the corporate franchise tax was phased-out, the personal income tax was not. For the majority of NFIB members and small businesses, their business income passes through on their personal income return. This income, which has been taxed once as gross receipts by the commercial activity tax, is now subject to personal income rates. While our members welcomed the reduction in personal income rates, corporations are not being double taxed. The BID was a means to address this imbalance.

The changes to the BID include; reducing from \$250,000 to \$100,000 the maximum deduction, coupled with the elimination of the 3 percent flat rate on business income over the threshold results in over \$1 billion in tax shifting on the backs of our small businesses. While the Ohio House package includes an across the board 6.6 percent reduction in personal income taxes, it does so not through spending reductions but by simply shifting tax burdens. As I mentioned earlier, NFIB supports reductions in tax liability. However, we have opposed previous efforts to offset reductions in taxes by saddling other taxpayers with tax increases. In our opinion, picking winners and losers is not sound tax policy.

Unfortunately, the rhetoric seems to be that the BID is a tax giveaway to the "rich." The notion that small business owners are "rich," and Ohio's tax system somehow is tipped in favor of them is, in our opinion, inaccurate. The provision in Sub HB 166 changes the dynamic for many small businesses. This substantial change was done quickly and unexpectedly. The BID has been in place for only a few short years. A key component of a

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<sup>2</sup> <https://www.adpemploymentreport.com/2019/April/NER/NER-April-2019.aspx>

successful tax system is stability and predictability. This sudden change certainly goes against this tax principle.

Our members got the message when the BID was put in place, Ohio believes in its small businesses. Small businesses responded and are making business plans with the BID in mind. You will hear from members today that can explain just what the BID means to their businesses, their employees, their communities, and the overall stability of Ohio's business climate. They will share what they have been doing and plan to do with their tax savings. As you all know, business planning takes time. Such a dramatic shift in tax policy will negatively impact planning businesses have made for this and future years.

Additionally, House Bill 166 makes the BID change retroactive to January 1, 2019. Nothing like the government changing the rules of the game midstream. For those that have already submitted their estimated payments to the state, they may be subjected to fines and penalties for playing by the rules as they understood them. Are you serious?

We ask you to put the brakes on this substantial change to tax policy so this body may truly understand the impact to the small business community and main street in your communities. I implore each of you to take time to talk with small business owners in your districts to get a handle on just what the BID means to their business operations. We believe such a significant change warrants a more robust analysis, certainly more than a few weeks.

We respectfully ask that you remove this provision from the budget. Thank you, Mr. Chairman and members of the Ohio Senate Finance Committee, I would be happy to try and address any questions.