



**R.L.O., Inc.**

**R.L.O., Inc., dba Great Clips**

PO Box 750250, Dayton, OH 45475

Chairman Dolan, Vice Chair Burke, Ranking Member Sykes and members of the Ohio Senate Finance Committee, my name is Clara Osterhage, and I am the President of R.L.O., Inc. I am speaking on behalf of myself, my business, and as a member of the National Federation of Independent Business. I am here today to testify in opposition to significant tax policy changes included in the Ohio House of Representatives in House Bill 166, the state's operating budget - specifically, the reduction in the business investor deduction (BID) from \$250,000 to \$100,000 and the elimination of the 3 percent flat rate on business income. Thank you for the opportunity to share my perspective.

I believe you need to know the story of my company, R.L.O., Inc., since the implementation of the BID, how my company

has grown, and how it continues to grow. Prior to starting my own business, I was a social worker working in healthcare. I was blessed to have the opportunity to become a small business owner in 1995. At that time, I could never have imagined where I would be today or anticipate the change agent I could become for so many people. I took a chance and literally bet on myself for the first time in my life. That part of the story is not atypical of many entrepreneurs and small business owners who I have met along the way. I invested every penny of my pension plan and managed to qualify for a \$75,000 SBA loan back then. Those were scary times in many ways because I was putting all that my husband and I had on the line.

I am proud of the success we have enjoyed over the years, but we have faced many challenges along the way. I am a Great Clips franchisee that today employs over 700 individuals primarily in Ohio, but also in Indiana, Kentucky, and West Virginia.

One of the keys to any business's success is its integration into the community where it lives. We have been committed to each of the communities in which we have the privilege of operating our salons, and my employees are given opportunities to give back every day. Some examples of our involvement in the communities we are in include:

- Regular visits to area children's hospitals to provide haircuts to children in long-term hospitalizations
- Sponsoring school-aged recreational teams everywhere;
- Providing free cuts to at sporting events including Ohio State baseball, the Cincinnati Reds, the Dayton Dragons, UD basketball, Cleveland Browns, Columbus Clippers, Toledo Walleyes, etc. with all proceeds going to chosen charities;
- Providing complimentary haircuts to veterans on Veterans Day;

- Providing complimentary haircuts – often down to bald – for cancer patients with hair loss from treatments;
- And many more.

The implementation of the BID sent a strong signal to the small business community that the state of Ohio had our backs. Through the iterations of the policy, coupled with the 3 percent flat rate, we invested our tax savings back into our business. Since 2013, we have expanded the number of our salons from 43 to 73. Over this period, we nearly doubled our employees, including not only cosmetologists but also employees to manage a growing business. Our employees are predominantly women, many of whom are single parents and heads of households.

I believe I have an obligation as a business owner to provide opportunities to my employees. Since 2012 our health insurance costs have increased over 80 percent, and each year

our premiums continue to climb significantly. Over this same period, labor costs have increased by 45.8 percent. Our employees have received wage increases over the past two years to ensure that I am providing a competitive, attractive wage. We implemented a retirement plan 20 years ago, and this year, we will provide our employees with access to financial advice so they may make better decisions regarding their financial future. I share this with you to demonstrate the commitment R.L.O. has to our employees.

In addition to investing in employees, we invest in our salons. The seemingly stable tax climate in Ohio allowed us to make further investments of over \$13.5 million since 2013. We remodeled numerous salons. Adding salons creates jobs, which helps the local economy. Construction trades are hired to build new salons and remodel existing salons. Think of the contractors and their employees that benefited from this

work! There is a multiplier effect in a local economy that results from new investment and new jobs.

We also invested in technology. We converted to iPad technology in all of our salons. This move provided our employees with the ability to deliver better customer service to their clients and customers. I believe that when a customer has a good service experience, they reward the provider. My employees directly benefit from a streamlined, efficient customer service process.

As you can imagine, with a growing business, there are increased taxes associated with the economic activity. Here are a few quick figures to demonstrate the mutual benefit that exists for my business and the state of Ohio with sound tax policy aimed at stimulating small business growth. Our total expenses are up 124 percent since 2012. This year, we anticipate we will pay \$1 million more in taxes than in 2012. As a pass-through entity, we pay the commercial activity tax

(CAT) - the tax on the privilege of doing business in Ohio - that all businesses pay, both pass-throughs and C-corporations. While West Virginia has a gross receipts tax, Indiana and Kentucky do not. Before the enactment of the BID, my business was also subjected to Ohio income tax. As you know, C-corporations are not.

The BID serves as a mechanism to level this playing field, which allows our company to re-invest in our business and benefits in each community in which we do business. Without the proposed changes, our combined CAT, state, and local tax rate is about 6%. If the changes are enacted, the combined CAT, state, and local tax rate will increase by about 33% to 8%.

I strongly object to the changes made by the Ohio House. It was done very quickly and with little time to publicly debate. Not only do I disagree with the haste with which the policy was changed, but I am also opposed to making the effective date January 1, 2019. As a business owner, I am simply unable

to do an about-face on my business planning. Opening and remodeling new salons, purchasing or upgrading equipment, evaluating health insurance plans and estimating my share of the premium, assessing opportunities for wage increases, and adding new employees – all of these things take planning. They do not happen overnight. While I object to the proposed changes as a whole and believe they can only result in the decline in business investment in Ohio, making the changes effective January 1, 2019, will harm my business and all businesses who have already made financial commitments based upon the current tax laws. I can't simply undo the commitments I have made to my employees and my other business partners because of a retroactive increase in taxes. Such a dramatic change is done with no input from the business community and with little understanding of the negative consequences it will have on those of us who are reinvesting in our business and contributing to the economic success of Ohio is not sound policy. I urge all of you to remove



these provisions from the budget. If a change in tax policy in Ohio is necessary, please take the time to evaluate just what the impact of your decisions will have on your constituents and get it right.

Please talk with business owners in your communities and see just what they are doing with the tax savings currently afforded them.

Mr. Chairman, I do want to take a moment to address what has been portrayed as a tax giveaway to the rich. I have to say that I am so incredibly disappointed that the assumption was made that all small business owners have used the tax savings/credit to enhance their leisure activities. Most of us have done quite the opposite and are working hard to take advantage of the great economic times we have been experiencing. I explained to you how I had put my savings back into my business. I hope you understand the benefits that flow from these investments. The assertion by

opponents of the BID and flat tax that all the tax savings are being pocketed or used to make frivolous purchases is not only incorrect but offensive.

Only a business owner understands the sacrifices that you have to make to keep your business on the right trajectory.

Most of us work seven days a week and work passionately for our employees. I wouldn't trade what I do for the world.

Most business-friendly states are trying to find ways to lower taxes for businesses to encourage investment.

Ohio did that and is enjoying a growing economy.

Increasing taxes will have the opposite effect.

Mr. Chairman and members of the committee, this concludes my remarks. I would be happy to address any questions.

Thank you again for your time.