Ohio House of Representatives

State Representative Derek Merrin
47th District

House Bill 150 – Sponsor Testimony
Insurance and Financial Institutions Committee
June 9, 2020

Chairman Hackett, Vice-Chairman Hottinger, Ranking Member Craig, and Committee Members, thank you for the opportunity to present testimony on House Bill 150. This legislation seeks to make pro-growth tax changes for new community banks and ensure tax fairness for mortgage lenders. Our business tax climate must be competitive to attract investment and spur job growth — this bill seeks to two specific changes to achieve that goal.

New banks (de novo banks) started in Ohio would be exempt from the Financial Institutions Tax (FIT) for the first three years of operation up to one million in tax liability. Over the last decade, Ohio has only seen a single new bank open. At the same time, Ohio saw 76 banks close due to closures or mergers. This is a worrisome indicator for Ohio's banking industry, our economy, rural areas, and overall competition.

Community banks play a vital role in our economy – providing financial services to many Ohioans to secure mortgages, vehicles, and investment planning that shape our futures. For entrepreneurs and businesses, small banks provide necessary capital to start businesses, stabilize operations, and ignite expansion. Community banks are often located in rural areas where access to major financial services is limited. They are economic pillars to many small communities. Regarding the proposed tax break, what does Ohio have to lose? Not much. As stated, there are hardly no new banks forming in the near future. Supporters of this tax break believe it would likely save a new bank approximately $100,000 to $400,000 annually depending on their size. A minimal break that would be very helpful for a fledging bank trying to survive and grow.

Ohio mortgage lenders are subject to the Commercial Activities Tax (CAT). With HB 150, the CAT would be modified for mortgage lenders resulting in a tax decrease. The CAT was not created for mortgage lenders. Mortgage lenders were originally subject to the Dealers Intangibles Tax (DIT), but were not moved to the Financial Institutions Tax (FIT) like other financial institutions in 2014, but moved to the CAT. This was a mistake. It resulted in a huge tax increase for mortgage lenders in Ohio. Unfortunately, Ohio is assessing the highest effective tax rate on mortgage lenders in the nation. To illustrate the problem, a mortgage lender may make a $100,000 loan to a consumer. The lender then sells the loan for $103,000. Due to the CAT, they must pay taxes on the full $103,000 not the $3,000 profit. HB 150 would apply the CAT only to the $3,000. Even with this change, Ohio's tax burden for mortgage lenders would still be higher than most states. It is important to note this excessive tax burden makes Ohio less competitive, but can increase costs for obtaining a mortgage – making financing a home more expensive for Ohioans.

I hope the committee shares my vision that adjusting Ohio's tax structure for new community banks and mortgage lenders will create economic growth, spur competition, provide more choices to consumers, and provide a fairer tax structure. At this time, I welcome any questions committee members may have.

Analysis of House Bill 150

State	Tax / $100k Loan	
KY 2017	$	2.52
PA 2017	$	5.68
CA 2017	$	7.39
IL 2017	$	15.86
IN 2017	$	17.20
WV 2017	$	35.37
WA 2017	$	45.29
Total Proposed OH (CAT) 2017 [1]	$	54.77
Total OH 2011 (DIT) [1]	$	102.49
Total OH 2017 (CAT) [1]	$	310.90

[1] Total OH tax includes OH CAT/DIT and pass-through entity tax.