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Chairman Roemer, Vice Chair Thomas, Ranking Member Troy, and Members of the House Ways and Means Committee, thank you for the opportunity to present sponsor testimony on Senate Bill 9, last year's tax conformity legislation that will become this year's tax conformity bill. Its intent is to incorporate into Ohio law recent changes to the Internal Revenue Code (IRC) that took effect after March 7th, 2025.

The federal act that created this change to the IRC is H.R. 1 of the 119th Congress, more commonly known as the "One Big Beautiful Bill Act". These changes may directly affect the tax base of Ohioans' income taxes by adjusting federal adjusted gross income (FAGI). This is done by changing the starting number for determining an Ohio taxpayer's taxable income.

The legislation contains an emergency clause. This is essential for ensuring that the bill goes into effect right away, as the 2025 tax filing season is approaching; for some Ohioans, it has already begun. Thus, prompt enactment enables taxpayers and tax preparers to file their 2025 returns without needing to make various adjustments that could raise their compliance costs.

The Ohio Department of Taxation will be testifying after me, and will provide a more exhaustive treatment of the various provisions. Most are de minimis and, like many tax conformity provisions in past bills, will be relatively pro forma. However, some provisions merit a closer look; should we choose not to conform on a given provision, this would be called decoupling.

One of those is Section 70302, which deals with full expensing of domestic research & experimental expenditures. I would point you to some research from ITEP for more information: <https://itep.org/states-obbba-corporate-tax-breaks-a-practical-guide/>. To quote the article: "OBBBA restores a previous law that allowed immediate write-off of research and development expenses, reversing a 2017 provision that required five-year amortization. It also allows retroactive write-offs back to 2022 for smaller businesses. The five-year approach makes sense because R&D investments pay off over multiple years. Immediate expensing doesn't match economic reality. The retroactive provision, in particular, is pure windfall, because you can't incentivize investments that already happened. All states should retain the five-year write-off and reject retroactivity."

Given the massive capital expenditures put forth to build out data centers, I worry that this provision will be an expensive giveaway to Big Tech in particular. Spending more state dollars to help create even more data centers in Ohio, and straining our grid further, is not somewhere I think we should go, especially given the tax breaks they currently enjoy. It would be adding insult to injury if they were able to somehow make use of the retroactive provision which, as previously mentioned, is supposed to be for small businesses. Ohio shouldn't be giving tax breaks that trillion-dollar market cap companies don't need for investments they've already made. At a minimum, I think we can take some time with this as large taxpayers with complicated situations can file six month extensions. Also, given the dearth of public tax information, I would be willing to roll the dice and go on record as saying the costs for this are likely going to be significantly higher than initially projected.

Another is Section 70303. This deals with the interest deductibility cap, but again, I struggle to see why we should conform. To quote ITEP again, "This is a problem because limits on interest deductibility help prevent corporations from excessively leveraging debt to reduce their tax bills – a hallmark of private equity deals in particular." To add some levity to the discussion, private equity's reputation has gotten so bad it's become an internet meme. In Cincinnati at least, the demise of Frisch's, a beloved restaurant chain, is exhibit A for why private equity deserves its criticism.

We definitely do need to pass a conformity bill, and I hope this can be done in a solidly bipartisan fashion; in fact, the presence of an emergency clause demands it. Hopefully, we don't fall into the thinking of Homer Simpson, who famously presented Marge with the following dilemma: do you want the job done right or do you want it done fast? Decoupling certain provisions should be on the table; Ohio has done this before, so it's not as though this would be novel. Moreover, as the state level tax conformity picture becomes clearer, we can see that a number of states have chosen to decouple, particularly regarding Section 70302: <https://www.ncsl.org/fiscal/2025-tax-conformity-changes>. Included in that list are Michigan and Pennsylvania.

With that I'll be happy to answer any questions you may have.