Dear Chairman Smith, and Members of the Committee:

Thank you for the opportunity to testify at today's hearing.

Ohio faces a huge long-term problem: income produced in this state is not staying here. We can see this in data from the Internal Revenue Service's taxpayer files. I have published this evidence in my book *How Money Walks* and made this information available on your district in the palm of your smart device.

Over the past 19 years, Ohio lost **$19.95 billion dollars** in net adjusted gross income. This loss, primarily from small businesses and working families, equates to **losing $2,100 every minute**, of every day, of every year, for the past nineteen years. The message from small business owners is clear: their working capital is more welcome elsewhere.

Similar to the brain drain of Ohio graduates going elsewhere to find work, your tax code has been punishing production and earnings at both the state and local levels of government. Unlike many other policy discussions, this loss is not happening merely within your region. Instead, taxpayers are voting with their feet and taking their wallets south out of the Heartland.

Here are the alarming numbers that must be addressed with further income tax cuts:

The top five states to whom Ohio is losing adjusted gross income are: Florida ($6.8 billion), North Carolina ($1.6 billion), Texas ($1.26 billion), South Carolina ($1.24 billion), and Arizona ($1.15 billion). When one looks the loss of taxpayer counts, the top five losses between 1992 and 2011 go to: Florida (89,966 taxpayers), North Carolina (31,531 taxpayers), Kentucky (27,300 taxpayers), Texas (22,943 taxpayers), and Arizona (22,417 taxpayers).

To be clear, taxpaying families do not move every day. Nor are tax factors the only factors that may be driving their family decisions. Yet, it would be equally wrong to ignore that Ohio's relatively high price placed upon work is not having a harmful effect upon your economy. When families pack their Uhaul trailers, Ohioans are now choosing states with low or no personal income taxes that are hundreds of miles away from your borders.

We can break that down by the major metro areas. The Columbus metro area lost **$4.47 billion dollars**. The Cincinnati metro area lost **$5.14 billion dollars.** Cleveland lost **$7.07 billion dollars**. Communities like Ft. Myers, Fl or Phoenix, AZ gain that which your cities are losing. When these taxpayers leave, these moves represent an intangible loss to your charitable boards and commissions, to your local school foundations and children's hospitals, and your entrepreneurial networks.

Another important measurement of business growth is available from Federal labor and census sources.

Lowering Ohio's drag on personal income is also good for state and local government revenue. In our book *Wealth of States* (co-authored with Steve Moore, Art Laffer, and Rex Sinquefield), we compare state & local government revenue growth from 2002 to 2012 across two very different classes of states. The first group of states were the nine no income tax states. The second group of states were the nine highest tax burden states. Because the low tax states experienced stronger economic growth, their growth in state & local government revenue was 30% higher over a decade than the group of high tax states. When states experience real growth, more consistent, less volatile government revenue likewise follows.

Chairman Smith and members of the Committee, I am here today to talk about how Ohio can stop losing income – and stop losing the small businesses that are the very backbone of the state's workforce. You can complete this goal by lowering your price on work to small business, and W2 incomes, below 4.5% or lower.

Small businesses employ more than 40 percent of Ohio's workforce. Small-business jobs also outnumber government jobs by a ratio of nearly three to one in Ohio. The smartest way to facilitate growth would be to move away from a high income tax rate and shift toward consumption taxes. The state should be taxing consumption, *not* production.

Consumers are better off with consumption taxes. These taxes allow for choice and for self-regulation.

State Government is better off with consumption taxes, which lower up to two thirds of your state revenue volatility over a ten-year average. When you combine a more predictable revenue stream with a lower price on work, you get a state economy that appeals to many – including the young, educated workforce that Ohio must attract to stay competitive and grow.

The approach is simple, and it is proven. Lower the state income tax. Shift to consumption taxes. Then, when you have real economic growth, you can continue to lower other forms of tax. In Texas, where there is no income tax, a modest consumption tax rate of 6.25 percent – and an inbound adjusted gross income gain of $2,888 every single minute – the state has used such growth to attack other forms of commercial activity taxes like its margins tax.

In Florida – with no personal income tax, a consumption tax rate of 6 percent, and an inbound gain of **$10,619 per minute** – Governor Rick Scott has cut other taxes over twenty times within the last five years alone.

Both the cautionary tales and the success stories point to one conclusion. Leaders in Ohio must protect small businesses by reducing the income tax and shifting to a consumption tax. This is what leads to real growth. This is the lasting economic change that allows government to step out of the way and small businesses to take the lead. This is the way forward for Ohio's economy, Ohio's workers, and Ohio's families.

Thank you for your attention to this real economic opportunity.

Travis H. Brown
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