

## HB 64 - Testimony

Mike Needler, Jr.

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Chairman Smith, Vice Chairman Schuring, Ranking Minority Member Driehaus, and members of the House Finance Committee, my name is Mike Needler, Jr., and I am the President and CEO of Fresh Encounter, Inc. based out of Findlay, OH. Thank you for the opportunity to offer written testimony on the tax components HB 64, Ohio's Main Operating Budget for Fiscal Year 16 and Fiscal Year 17.

As President and CEO of Fresh Encounter, I represent approximately 1,900 employees and 36 operating units throughout the state of Ohio, and Indiana. The independent grocers of Ohio contribute \$1.06 billion in state taxes according to a report commissioned by National Grocers Association, and our company certainly contributes its share. As a 3<sup>rd</sup> Generation family owned business, Fresh Encounter has been serving communities in state of Ohio for 51 years.

I write to you today because as a member of a family owned business, I have concerns over the tax provisions outlined in Executive version of HB 64 that will be harmful to the future growth and quite frankly sustainability of our business. I support the leadership and direction that Governor Kasich and the Legislature have taken our economy and state in making Ohio a better place to work and live. I also applaud and appreciate the desire to lower the state's income tax rate which is something that can ultimately have a positive impact for all Ohioans. Yet, I have an obligation to protect my employees and our business from public policy that will have an adverse impact on operations especially a policy that places an unfair tax burden on high-volume, low-profit margin businesses.

Retailers, like Fresh Encounter, operate on extremely thin margins – at last calculation, the industry average is a mere 1.5%. As you know, the Commercial Activity Tax (CAT) does not account for *ability to pay* (through profits), it is simply calculated on a company's gross receipts. There are many factors that retailers work against to achieve any profit margin, and with the increasingly competitive landscape there is very little ability to pass through cost increases to consumers in the short run. We face a list of industry wide challenges: increased minimum wage, soaring swipe fees, rising healthcare costs, and many more to stay competitive. A 23% increase to our state tax bill with the proposed CAT rate hike would be damaging to our ability to pay fair wages, damaging to our ability to reinvest in food safety and ultimately damaging to the competitive pricing offered to our consumer. Independent grocer's volumes have a broad range from a single store operator doing \$5,000,000 to family owned firms doing \$500,000,000 annually and the figures previously noted, the estimated CAT tax to organizations in our industry would range \$18,500 to \$1.85 million from the proposed 23% increase to the CAT. If the single store operator, or family owned business is lucky enough to achieve the 1.5% Net Income, they would earn a net income of \$75,000 to \$7.5 million respectively. The proposed CAT tax would represent a 24.67% tax for doing business in Ohio, and cannot be avoided *even if* the expenses for that operator escalate faster than revenues, causing them to generate a loss. This tax should be added to the income tax already being collected by both federal and state authorities.

Similarly, the expansion of the sales tax, when the full extent of professional services we rely on are considered such as advertising and market research, will be extremely detrimental to our business. Retailers, like Fresh Encounter, rely heavily on the ability to adequately market and advertise our offerings to the consumer. Taxing these services would potentially hinder our ability to effectively market our stores and would have an unintended consequence on our firm, as well as those which provide us this service.

In addition to the short-run negative consequences associated with the tax increase on small businesses like Fresh Encounter, it is my opinion that this type of tax structure on our industry would have a long run effect of increased food costs and less competition. Taxing food does not benefit the general populous of our State.

The intent of the proposed legislation is to reduce our State's income tax rates, in an effort to become more competitive with surrounding states. I am interested in making our State more competitive for organizations to thrive; however I do not feel the reductions in personal income tax will off-set the proposed tax increases on our business.

I respectfully request that further thought and consideration be given to these tax provisions and the adverse impact it will have on Ohio's small businesses and consumers.

Mr. Chairman, members of the House Finance Committee, thank you for your time today.