



**Ohio Society of CPAs  
Testimony on Tax Provisions in HB 64  
Before the Ohio House Finance Committee  
March 25, 2015**

**Chairman Smith, Vice Chair Schuring, Ranking Member Driehaus and members of the House Finance Committee, thank you for this opportunity to speak on behalf of the 21,000 members of The Ohio Society of CPAs regarding the tax components contained in HB 64.**

**I'm Tom Hazelbaker, a CPA from Middletown. For over 40 years I have served privately owned businesses and individual tax clients. I am the immediate past chair and President of the CPA firm Clark, Schaefer Hackett with offices in 6 Ohio cities and since my "retirement" in 2012, I am enjoying the opportunity to pursue my new passion: teaching introductory financial accounting to college business students at Wright State.**

**I have a vested interest in Ohio's economic achievement on behalf of my former firm, my former and existing clients, my current students and my five siblings, their spouses, and all 76 of our collective children and grandchildren –ALL of whom live in Ohio.**

**To begin, I applaud Governor Kasich and all members of the House and Senate for your past efforts to improve Ohio's economy and to make our great state not only as competitive as possible, but also a place where people want to grow their business, raise a family and send their kids to some of our great post-secondary institutions. The Ohio Society has supported many of the initiatives you have adopted that have improved Ohio, and we look forward to continuing to work with you to explore opportunities to improve our state even more.**

**Where HB 64 and its proposed tax provisions are concerned, there are certainly some positive concepts contained in the package. For example, we agree that reducing the tax burden can help to make Ohio more competitive, and allowing taxpayers to keep more of their own money enables them to invest those dollars back into the economy. However, as with anything, the devil is in the details and we do have significant concerns about some of the tax provisions.**

**I also want to mention that the Ohio Society of CPAs is a member of the Ohio Service Industry Coalition, comprising a total of 22 separate trade associations, professional organizations, and businesses. You received a letter outlining our collective position urging rejection of the proposed CAT and sales tax increases.**

**The Ohio Society surveyed over 4,000 of our senior-level members – focusing just on CPAs who serve in a firm ownership role in a CPA firm, are a corporate officer working directly for**

another type of Ohio business, or are part of our Tax Section – to determine what these key business leaders think of HB64. We had a response rate of 12%, which is very respectable when you consider it was taken during the hectic corporate and individual tax filing season. Collectively:

- 83% have concerns about the impact on their business from the proposed sales tax changes
- 58% believe the income tax and CAT reductions are not worth the damage caused by the tax increases
- 89% believe the management consulting sales tax provision will have a negative impact on Ohio businesses
- Only 23% believe the small business tax cuts will result in growth and/or increased hiring

I would like to specifically address some of the tax components of the package before you:

#### Commercial Activity Tax

Since its creation in 2005, the Ohio Society of CPAs has been a strong supporter of the CAT. The beauty of this business tax is its very low rate combined with its simplicity and ease of compliance – and until recently its predictability. The simpler a tax, the more likely taxpayers can comply with filing requirements on their own. During my years of practice dealing with closely held businesses, I have been struck by business owners' willingness to pay tax as long as it is reasonable, comprehensible in its calculation and deemed to be *assessed consistently* across all businesses. Businesses are willing to pay tax to ensure funding of needed government services – but they do not want to pay if their competitors are not equally contributing their share. We have consistently opposed exemptions and credits to the CAT because they add complexity, pick winners and losers, and at some point will drive up the rate due to lost revenue – just as is being proposed in HB 64. The current low rate and ease of compliance makes the CAT a very attractive tax. I believe complexity and change detract from that attractiveness. While the rate itself has not been increased since 2005, it's important to note that the CAT has taken in more tax revenue from many businesses since its creation -- through growing gross receipts. Obviously, it is much better if more business tax revenue is generated through increased sales rather than higher tax rates. I encourage you to focus on approaches that help to expand sales growth rather than punish higher revenues.

Last session, concerns about taxes paid by pass-through entities were addressed through the 50% income tax reduction on up to \$250,000 of income. While we agree that small businesses are critical to our state and represent a significant portion of the Ohio economy, middle-market and large businesses are also very important. We question the fairness of

**largely eliminating tax on one class of business taxpayer (pass-through entities under \$2 million in gross receipts) at the expense of larger businesses. The proposed CAT rate increase would particularly impact manufacturing investment and jobs, larger retailers and high-volume, low margin businesses, and could serve as an incentive for smaller businesses to avoid growing over that \$2 million threshold.**

### **Sales Tax**

**The Ohio Society also has significant concerns about the numerous proposed new taxes on services. Since only three states have a broad sales tax on professional services (Hawaii, South Dakota and New Mexico), Ohio businesses providing the targeted services in HB 64 would be at a competitive disadvantage to professionals in almost every other state.**

**It isn't uncommon for an Ohio professional services firm specializing in a particular area to have clients operating across the country or even the globe -- meaning those non-Ohio clients could easily just switch to service providers in any of the 46 other states that don't tax the services. So could Ohio clients.**

**Our Society has already heard from one large CPA firm based in our state that, if their consulting services are taxed, they likely would move their impacted professionals to their non-Ohio office to keep doing the same work. This would result in the potential loss of highly compensated workers and the related positive impact they have on their communities, as well as the Ohio income tax they would pay on their compensation.**

**Another concern: the definition of "management consulting service" is extremely broad as it includes any activity that provides advice and assistance to businesses and other organizations on business issues. The laundry list of services that could be considered "advice and assistance" ensures how difficult it will be for professionals to differentiate what part of a discussion is management consulting and therefore subject to collection of sales tax.**

**Figuring out where the benefit of the service is received also can be particularly challenging. Some services, such as lawn mowing, clearly are provided at a fixed location and there is no confusion about where the service is situated. Other professional services, however, are less well defined and can be provided to and from anywhere thanks to technology.**

**Consider a personal example: one of my most successful and longtime clients has manufacturing plants in Ohio, Illinois, Indiana, West Virginia and Michigan. Think of the last time you spoke to your tax preparer about your own return. Now assume that your income was allocated to every city and state that you had operations and your tax preparer calls about the allocation of income by location. Where does the conversation stop being tax preparation and begin being "advice and assistance" and how much of that conversation**

applied to Ohio versus other states. Now expand that complication by imagining a conference call with professionals that work out of our firm's Kentucky satellite office with the client and the conversation requires us to discuss financial statement, tax preparation and business strategy discussions. Further compounding this proposal is the reality that we would have to track and comply with dozens of varying sales tax rates across Ohio. As you know from your efforts on municipal tax reform last session, many Ohio businesses operate in multiple Ohio cities.

You could have similar scenarios with attorneys, human or public relations advisors, construction or real estate experts, financial advisors, and many others as the definition includes – but is not limited to – 22 different services that might be used by a business.

Remember, business owners are willing to pay a reasonable tax if they think it is comprehensible and all are playing on a level field. This proposal is anything but simple and fair.

This body has just recently been through a difficult battle regarding the complexity of Ohio's municipal income tax system and has made great, but painful strides, to clean up this quagmire. Do we really want to create similar complexities with our State's sales tax system?

OSCPA is also concerned about the broadly worded inclusion of "lobbying." While most people think of lobbying in terms of interaction with government agencies and elected officials, the definition contained in HB 64 goes far beyond that to include "any activity that serves to influence the behavior or opinion of an individual, an industry or an organization." This means the work of independent sales representatives could trigger the sales tax, as could advertising or any other activity that tries to influence behavior or opinions of others.

The confusion that comes with taxing professional services is a big reason that only three states broadly tax services – and none are in the Midwest. In fact, South Dakota is the only one that imposes a true sales tax on a broad array of services.

Michigan and Florida previously adopted a broad professional services sales tax but quickly repealed their laws when they discovered how difficult implementation was.

Lastly, since most of my career dealt with closely held businesses, I would be remiss if I didn't point out that closely held businesses are more likely to need outside professional services than larger companies because the smaller business cannot afford to have in-house CPAs, attorneys, HR experts, etc. Thus, the small business would be assessed a sales tax to obtain the same advice that a larger company might obtain from their own employees – sales tax free.

## Summary

**A consistent message the Ohio Society of CPAs has received from its members, and one that I've heard from my own firm colleagues, is that many Ohio businesses believe they will end up paying more in tax – often a lot more - than they pay under the current tax system despite the income tax reductions. We know from past testimony that the overall goal of HB 64 is to drive economic development and job creation in our state. We strongly believe the tax reform package now before you is not the right approach. Instead of a piece-meal approach, we encourage the Legislature to take a careful, comprehensive look at all components of Ohio's tax system and map out a longer-term strategy. The Ohio Society of CPAs stands ready to assist you with that effort, just as we did a few years ago with our Ohio Budget Advisory Task Force, of which I was a member.**

**Thank you again for this opportunity to share the concerns of Ohio's CPA community and the thousands of businesses with which we work. I'd be happy to try and answer any questions you might have.**