

BEFORE THE HOUSE WAYS & MEANS COMMITTEE  
Proponent Testimony on House Bill 326  
Thursday – September 24, 2015

Chairman McClain and Members of the Committee,

My name is Daniel Navin and I am the assistant vice president of tax and economic policy for the Ohio Chamber of Commerce. I also am the staff representative to our Ohio Small Business Council and thus am here today to voice our support for House Bill 326, the small business tax fix legislation.

On behalf of our over 6,000 small business members, I first want to thank the governor and the members of the General Assembly, including the members of this committee, for devising and enacting the income tax exemption for pass-through entity (PTE) business owners that is the subject of the slight tweak this bill would cause. As you know, the owners of businesses with as many as 200+ employees and those with very few employees are always looking for ways to find capital to invest in their companies. The economic consequences of this income tax exclusion will be to provide many small businesses across the state some needed capital to buy new machinery & equipment, facilitate expansion into other markets, and enable their companies to grow here in Ohio.

As to the tax-related changes in the bill, House Bill 64, the FY 2016-17 biennial budget bill passed in June allows 75% of the first \$250,000 of pass-through business income earned in 2015 to be exempt from personal income tax, with the exemption/exclusion percentage increasing to 100% of the first \$250,000 in tax year 2016 and beyond. Under the existing language in HB 64, the remaining 25% of the first \$250,000 in business income in 2015 would be subject to the new 3% flat tax on PTE business income. However, the imposition of the 3% flat tax in 2015 could result in a number of taxpayers with smaller amounts of PTE business income paying more tax than they otherwise would have because their existing tax bracket is lower than 3%.

To avoid this result, HB 326 provides that the 25% of a taxpayer's first \$250,000 of PTE business income in 2015 that is not exempt from taxation will be subject to the existing income tax brackets, not the 3% flat tax. Any PTE business income in excess of \$250,000 will be subject to the 3% tax.

We think HB 326 is a fair and equitable solution that upholds the original intent of this small business tax exemption. The Ohio Chamber and its Ohio Small Business Council support this necessary revision and urge your support for the legislation.