

MEMORANDUM

TO: MEMBERS OF THE OHIO HOUSE WAYS & MEANS COMMITTEE

FROM: CHRIS FERRUSO, LEGISLATIVE DIRECTOR

RE: PROPONENT TESTIMONY – SENATE BILL 208 – TAX CORRECTIONS BILL

DATE: OCTOBER 26, 2015

Mr. Chairman and members of the Ohio House Ways & Means Committee, I am submitting this written testimony on behalf of our 25,000 governing members to convey our support for Senate Bill 208, in particular the provision correcting the flat tax on business income that will avoid potential tax increases on small businesses.

By way of background, a typical NFIB/Ohio member has 20 or fewer employees and \$1 million or less in annual sales. Our members come from all industry sectors and we look much like Main Street in any town. NFIB is a member driven organization setting our public policy positions through a unique member ballot and surveying process.

NFIB/Ohio strongly supported the small-business investor deduction both in House Bill 64 passed earlier this year, as well as previous iterations. I would be remiss if I did not commend the legislature for their understanding of the importance of small-business to Ohio's economic vibrancy through passage of the deduction in House Bill 64, as well as Governor Kasich for signing into law. Unfortunately, during the amending and conference committee process, the language ultimately enacted in House Bill 64 will result in negative consequences for some business owners. House Bill 64 allows small businesses to deduct up to 75 percent of their first \$250,000 of income in 2015, and then applies a flat three percent tax on remaining net income. However, due to Ohio's graduated income tax rates, there will be instances where the three percent rate will exceed the graduated rate on net income, thus resulting in a tax increase. By clarifying, by all accounts, the clear intention of the legislature, that this three percent tax will only be on business income in excess of \$250,000, the state will avoid the aforementioned situation. We applaud the General Assembly for making this issue a priority.

NFIB/Ohio appreciates the need to address this issue in a timely manner. Given the effective date of House Bill 64 and absent any emergency clause added to this bill, correcting this unintended consequence needs to occur soon.

According to the Small Business Administration (SBA), small-businesses created 2 out of every 3 new jobs in 2014. The SBA also stated that start-ups and small enterprises generated 7 million of the 11 million new jobs during the economic recovery. In reports on the number of new business filings in Ohio by Secretary of State Husted, the latest numbers for 2015 indicate this year will be another record year. I present this information to stress the importance of small business to our economic well-being.

I have previously testified before this committee on the findings of the NFIB Research Foundation in their *Problems and Priorities* quadrennial publication tracking the 75 biggest issues facing small-business owners. Ranking number 4 is uncertainty over government regulations and 10 is state taxes on business income. Remember, this is a list of 75 different problems small-business faces. The high ranking of these two issues further indicate the need for Senate Bill 208. Quickly enacting Senate Bill 208 will help preserve consistency in tax rate(s) on business income, for those businesses that would be negatively impacted by an unintended tax increase.

Finally, I want to highlight another monthly economic report produced by the NFIB Research Foundation, the *Small Business Economic Trends*. The most recent report from July 2015 indicates an increase in the optimism index. This important index tracks the feelings and sentiments of our members on the chances for improvement in hiring, sales, and revenue. I offer this as another reason to continue the commitments you have made in recent years to fostering a positive growth environment for small businesses.

NFIB/Ohio supports the language in Senate Bill 208 that will correct an inadvertent error in House Bill 64 related to the tax rate on taxable business income. Senate Bill 208 unanimously passed the Ohio Senate last week. We hope this committee moves expeditiously on Senate Bill 208.

Thank you for the opportunity to submit comments.