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HOUSE BILL 49 – STATE OPERATING BUDGET – MUNICIPAL INCOME TAX COLLECTION

PROPONENT TESTIMONY

OHIO HOUSE FINANCE COMMITTEE

MARCH 30, 2017

Chairman Smith, Vice-Chair Ryan, Ranking-Member Cera and members of the Ohio House Finance Committee, my name is Chris Ferruso and I serve as Legislative Director for the National Federation of Independent Business/Ohio (NFIB/Ohio). Thank you for the opportunity to provide testimony on behalf of the nearly 25,000 governing members of the National Federation of Independent Business to express our support for the municipal income collection provisions contained in House Bill 49. We believe the proposal put forth by Governor Kasich has the potential to save many employers a significant amount of time and money in complying with the current filing process for municipal net profit returns.

By way of background, a typical NFIB/Ohio member employs 25 or fewer and does less than \$2 million in annual sales. Our members come from every industry type, and our organization looks like Main Street in any legislative district across Ohio. We set policy based upon a unique member balloting process. The positions we take before the Ohio General Assembly are directly related to this process.

We also have the NFIB Research Foundation which is constantly surveying our members on a host of topics. Late last year, we released our quadrennial publication *Problems & Priorities*. This publication captures our members' responses to a list of 75 small business issues, asking them to rank them based upon the biggest impediment to job creation/expansion/growth. Over the past 8 years, taxes and general government compliance have become more prevalent answers in these surveys. In fact, taxes are 4 of the top 11 issues raised by our members, including tax complexity at number 3, and state/local paperwork at number 7.¹

While strides were made in House Bill 5 of the 130th General Assembly to bring about more uniformity in deadlines and rules across Ohio's nearly 600 different cities and villages that levy municipal income taxes, reducing complexity on net profit returns remains an issue. House Bill 5 did establish a de minimus amount of ten dollars whereby neither payment nor refund is due. However, a business still must file a return to each of those municipalities, incurring the cost of determining apportionment then, in many instances, paying their accountant to complete and file a return, and when necessary remit payment to each municipality.

House Bill 49 aims to alleviate some this burden. House Bill 49 requires the Department of Taxation (Taxation) to serve as a single clearinghouse for filing and payment of municipal net profit returns. The

¹ <http://www.nfib.com/assets/NFIB-Problems-and-Priorities-2016.pdf>

idea, as explained by Commissioner Testa is: one form, one payment, one audit/appeals process. Taxation would utilize the Ohio Business Gateway(OBG) as the electronic means for businesses to file their municipal tax returns. Taxation would then be responsible for remittance of tax payments to the appropriate municipalities, which can quickly add up to a dozen or more for many small businesses.

Taxation recently ran an analysis to determine the potential cost savings for businesses. Their estimate is \$800 million annually.² The House Ways and Means Committee heard testimony that the municipal net profits tax generates \$600 million annually.³ These figures are staggering. When the cost savings alone exceed the liability, this clearly indicates a broken system. And please note, there still remains compliance costs associated with Taxation's proposal, it in no way mitigates all these costs. Commissioner Testa also estimated savings to municipalities of nearly \$9 million.

I would now like to take a moment to explain some of what this proposal does and does not do.

First, the proposal in House Bill 49 is only on net profits, not employee withholdings. Based upon prior testimony from both Taxation and the Ohio Municipal League, the net profits, on average, constitutes 14-15 percent of a municipality's income tax revenue.⁴ This means each municipality, or their third-party administrator, will retain control of 85-86 percent of their municipal income tax.

Second, this proposal in no way impacts the ability of a municipality to levy an income tax or restricts the rate currently charged. Municipalities retain the ability to maintain their rates and credits subject to their local councils and voters. Nothing in this proposal aims to limit their municipal income tax revenue.

Third, we have heard that this is state takeover of the municipal income tax system and the state will collect and keep the municipal net profit taxes. As testified to in multiple venues, Commissioner Testa has indicated that the state has no desire to do so. In fact, Taxation currently collects, administers and remits the school district income tax, sales tax and municipal income tax for electric light companies and local exchange telephone companies. I am unaware of any issues on lack of remittance by Taxation to the appropriate entities. This fear seems to be unwarranted and unfounded. Additionally, any interest earned on invested net profits taxes will be distributed on a pro rata basis to municipalities.

We believe the proposal to collect and remit municipal income tax by the Ohio Department of Taxation through the OBG has the potential to save our members significant resources. We fully recognize that in order to make this function properly, OBG must be able to handle what will be an increased volume of returns. To that end, we are amenable to extending the start date so the OBG can undergo necessary upgrades and tests to ensure a smooth process for businesses and municipalities.

Mr. Chairman and members of the Ohio House Finance Committee, thank you for the opportunity to provide comments on the collection of municipal income tax contained in House Bill 49. I am happy to try and address any questions you have.

² <http://www.ohio.com/news/politics/2016/kasich-to-cite-800m-business-cost-in-tax-fight-1.756550>

³ Ohio Municipal League testimony before Ohio House Ways & Means Committee March 7, 2017

⁴ Ohio Municipal League testimony before Ohio House Ways & Means Committee March 7, 2017