



Representative Bill Roemer  
Representative Bob Young

House Ways and Means Committee  
House Bill 124 Sponsor Testimony  
February 23<sup>rd</sup>, 2021

Chairman Merrin, Vice Chairman Riedel, Ranking Member Sobecki, and members of the House Ways and Means Committee, thank you for the opportunity to testify on House Bill 124. You may recognize this legislation, as it was previously introduced in the 133<sup>rd</sup> General Assembly by former Representatives Scherer and Rogers as House Bill 467. Simply put, this bill would harmonize the tax withholding rate for pass-through entities with their actual rate of taxation.

For too long in Ohio, businesses classified as pass-through entities have had income withheld at a rate significantly higher than their actual rate of taxation. This practice unnecessarily takes earnings out of the pockets of Ohio businesses and puts them in the hands of the state, only for them to be claimed back later. This not only keeps more dollars from flowing through our economy that would otherwise; it creates unnecessary work for business owners when filing.

This arrangement has existed in Ohio tax law since 1997, when it was enacted by the 122<sup>nd</sup> General Assembly. Since then, we have made numerous tweaks and adjustments to make Ohio tax law fairer and simpler for taxpayers of all stripes, but these provisions remain the same. It is well past time that we simplify this process, and given the circumstances of Ohio's economy at this moment, there is no better time than now to correct this issue.

Under current Ohio law, owners of pass-through entities (PTEs) or those who invest in PTEs must pay Ohio income tax on earnings collected through this activity. PTEs include a host of corporations, including S corporations, partnerships, and limited liability companies that are treated like partnerships for federal income tax purposes. Generally speaking, the advantage of operating as a PTE is that it allows the owners or investors to directly pay the company's tax as individual income tax and forego corporate taxes – thus avoiding double taxation.

Right now, non-resident investors (those living outside Ohio but investing in Ohio PTEs) pay a tax rate of 3% on this income. However, individual investors have 5% of this income withheld, and non-individual investors have 8.5% withheld – drastically more than the 3% they actually owe. This bill will reduce the withholding rate on these pass-through entities to the actual rate of taxation – 3%.

While the investors themselves may not reside in Ohio, their businesses, the jobs they create, and the revenue they generate remains a critical part of Ohio's economy. Deliberately over-taxing these individuals is simply unfair, and if our aim is to spurn investment in Ohio, taking more tax than is due and forcing investors to file extra paperwork is hardly the way to do it.

The previous iteration of this bill passed this committee last General Assembly with unanimous support. I urge you to give House Bill 124 the same enthusiastic support, and help make Ohio tax laws fairer and simpler for all those who invest here.

Thank you to Chairman Merrin and the members of the committee for the opportunity to testify today on House Bill 124. We would be happy to answer any questions you have at this time.