THE OHIO SOCIETY OF CPAs
ADVANCING THE STATE OF BUSINESS

Interested Party Written Testimony on Substitute House Bill 49
for
The Ohio Senate Finance Committee
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The Ohio Society of CPAs
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Chairman Oelslager, Vice Chair Manning, Ranking Member Skindell and Members of the Senate Finance Committee, thank you for this opportunity to offer comments on Am. Sub. H.B. 49. The Ohio Society of CPAs (OSCPA) is a leading partner and influential voice for a thriving business environment. We are a community of 25,000 members representing CPAs and accounting professionals statewide, leading important initiatives that create a healthy and sustainable business climate in Ohio. We are also a leading member of the Ohio Municipal Tax Reform Coalition, consisting of 30 organizations who collectively represent several hundred thousand employers and professionals in Ohio. While our testimony will primarily focus on two municipal income tax proposals, we also have recommendations on several other provisions.

Centralized Collection of the Municipal Net Profits Tax

The Society has been on record for numerous years supporting some form of centralized collection and administration of municipal tax for business filers to ease the costly and time consuming administrative burden they face with filing in potentially dozens – even hundreds – of Ohio cities. The time and money involved with all of this red tape would be far better invested in growing Ohio businesses, and is a burden rarely faced by business owners in other states.

Gov. Kasich's "as introduced" version of the budget proposed meaningful relief through centralized filing, payment and administration of all net profits filings through the state. However, the mandate that all businesses must file, pay and be administered by the state raised some valid concerns. The House-passed version of Am. Sub. H.B. 49 eliminated the mandate, but also eliminated other key improvements making the current version basically the status quo for what occurs today. A compromise was developed late in the House process by ODT that OSCPA and the Ohio Municipal Tax Reform Coalition support: an "opt in" approach that we urge the Senate to adopt.

Under this opt in approach, municipal net profits filers could *choose* to file and pay all of their net profits obligations through the Ohio Business Gateway (OBG) and have ODT administer the taxes for the cities. These business filers could file on one form and pay all at once through OBG (with the separate tax payments then being sent to the cities), and deal with just one tax administrator – ODT – for any needed follow up information, audits, appeals, etc. vs. having to respond to potentially dozens of different cities. Further, ODT has committed to internally providing the funding to enable the OBG to accept uploaded commercial tax preparation software, which is critical to getting businesses to use the OBG for net profits filings. Alternatively, for businesses who want to keep working directly with their local cities, they absolutely can keep doing that with no action required on their part.

While a 1% fee by ODT is needed to cover administrative costs for these net profits filings, retaining a percentage of local tax collections to defray its administrative costs is standard procedure. The ODT already processes payments for other local governments and distributes revenues back only after retaining the following: county sales taxes (1%), school district income taxes (1.5%), and municipal electric, light, & telephone companies (1.5%). It's important to note that the net profits tax makes up roughly 14% of a city's income tax revenue, and per the Ohio Municipal League, 87% of businesses file in three or fewer cities (meaning 13% file in four or more). Assuming most businesses filing in three or fewer cities are pleased with their experiences with local tax officials, this means that the impact on cities likely will be about 13% of the 14% net profits revenue will be assessed the 1% fee.

Elimination of the Municipal "Throwback" Rule

We continue to support the second proposal that was maintained in the House-passed version of H.B. 49: eliminating the municipal "throwback" rule. This outdated rule requires that sales of goods shipped to a customer in another tax jurisdiction (destination) where the seller does not have an employee that regularly engages in the solicitation of sales (e.g., internet sales companies) are "thrown back" to the jurisdiction (origin) from which the goods are shipped.

No other state determines if a sale must be thrown-back based upon the person that solicited the sale or whether the person solicited the sale at the delivery location. This practice discourages economic development in our state, as companies can easily locate in another state whose cities do not impose this punitive tax.

Other Tax Provisions

OSCPA also supports the following proposals contained in Am. Sub. H.B. 49, and would value the Senate's support as well:

1) Reducing Ohio's income tax brackets from nine to seven.
2) Eliminating the originally proposed sales tax rate increase and the base expansion to other services.
3) Changing the municipal income tax penalty language to "not exceeding 50%" of the unpaid withholding amount rather than "equal to 50%."
4) Requiring the Deputy Auditor of State to be a CPA.
5) Combining ODT's sales and use tax forms to cut down on red tape.
6) Clarifying that various electronic services are not the true object of the transaction and not taxable under the sales tax when they are provided primarily for the delivery, receipt or use of another nontaxable service. This will avoid adding new services to those that already are taxed.

Thank you again for this opportunity to share the thoughts of Ohio's CPA community on these important issues, and for your consideration of our views.