Testimony of Quicken Loans
On House Bill 166

Senate Finance Committee
May 23, 2019

Good morning, Mr. Chairman and fellow members of the Senate Finance Committee, my name is Julie Booth. I am the Chief Financial Officer for Quicken Loans. We are the largest mortgage lender in Ohio as well as the United States. Quicken Loans is proud to employ nearly 500 Ohio-based team members in our Cleveland office. As you may be aware our Chairman, Dan Gilbert, and our family of companies enjoy strong ties to the state including the Cleveland Cavaliers. I am pleased to be here today to offer testimony on Amended Substitute House Bill 166. Specifically, Quicken Loans and our fellow members of the Ohio Mortgage Bankers Association are here to ask you to provide our industry with tax parity.

For a little background, prior to tax year 2014, mortgage lenders with a physical branch in Ohio paid state tax on their income under the state Dealer in Intangibles tax, or DIT. The DIT was a unique tax applicable to certain financial services organizations, including, but not limited to, mortgage lenders, securities brokers and entities extending credit or buying and selling securities as required under Ohio's statutory definitions. The DIT was eliminated in 2012, effective with the 2014 tax year. Under the legislation, to the extent that such entities were not subject to a newly created Financial Institutions Tax, referred to as the FIT, we became subject to the Ohio Commercial Activities Tax, or CAT. Non-depository mortgage lenders did not qualify as a "financial institution" under the FIT and are thus subject to the CAT.

Our understanding, based on more than a year of meetings with the Ohio Department of Taxation, and individuals who took part in enacting the FIT, is that regardless of whether the DIT taxpayers became FIT or CAT defined the intent from lawmakers and the administration was that the change would be revenue neutral for Ohio and tax neutral for the taxpayer. However, the move from the DIT to the CAT resulted in a significant increase in Quicken Loans' tax liability – in fact, we estimate that Quicken Loans pays 2 and ½ times more in tax, on average, under the CAT than we would if the DIT were still in place.

As I mentioned, we are asking for tax parity. While non-depository mortgage lenders are subject to the CAT, depository participants are subject to the FIT and consequently paying much less in tax to the state than Quicken Loans and our fellow members of the Ohio Mortgage Bankers Association. We believe that this bias was not the intent of the original tax change.

The taxes we pay in Ohio are higher than anywhere else in the country. Based on our experience in other states – which vary widely in how they tax our industry – the applicable tax rate is typically between 3 and 13 percent. Under the CAT, we have effectively been taxed at a rate in excess of 25 percent on our Ohio earnings. As a point of reference, Quicken Loans pays more taxes to Ohio than we do to California – a state where we originate more mortgages, and the mortgages are typically larger due to higher housing costs.

Non-depository lenders such as those of us testifying here today are where the majority of Americans and Ohioans receive their home financing. The burden of a much higher tax liability under the CAT results in less income for non-depository lenders to invest in new product offerings, new technology and other business initiatives - which ultimately negatively impacts consumers. While the housing market and finance industry have improved in Ohio, some mortgage lenders have limited their activity in the state. Some have even stopped doing business here.

Due to this disparity and the unintended significant increase in tax liability, Quicken Loans, and mortgage lenders obligated under the CAT here in Ohio, are seeking a legislative change to bring our tax liability in line with the tax neutrality that was intended. We are requesting an amendment be included in House Bill 166 that would add non-depository mortgage lenders to the definition of "financial institution" under the FIT, thus allowing non-depository mortgage lenders to be taxed under the FIT rather than the CAT.

Thank you for the opportunity to be here today, and I am happy to answer any questions.