Testimony of Albert F. Macre, CPA
Ohio Senate Finance Committee
May 23, 2019

Thank you, Mr. Chairman and members of the Ohio Senate Finance Committee.

My name is Albert Macre and I am here to speak against House Bill 166, legislation that would significantly dampen the stimulative effects of the Business Investor Deduction. I am a Certified Public Accountant, a tenured Assistant Professor of Tax and Accounting at the Franciscan University of Steubenville and Vice-chair of the Ohio chapter of the National Federation of Independent Business. In addition to my accounting practice, I have ownership interests in several small businesses in Jefferson County, Ohio. I appear before this committee today, to provide my perspective on what I believe has been a significant stimulus to the economic development of our state, especially along the borders where the choice of locating your business is often motivated by business tax structures and rates.

A few weeks ago, Stephen Moore, an Economist and former Wall Street Journal Editorial Board member published an article called "Ohio - The Comeback State." The gist of the article was that Ohio has been overlooked in terms of the economic resurgence we've experienced. The article primarily attributes this resurgence to the oil and gas boom in the southeastern part of the state and the 2018 tax law changes that went into effect last year. One particular item in the article bears quoting: "All told, the Buckeye State is shattering economic vitality records… The number of available jobs just recently set a 21-year record, according to the Bureau of Labor Statistics. And payrolls just reached a record 5.6 million last month. Seven or eight years ago, you would see shuttered buildings in Ohio with "for sale" signs. Now you see bustling businesses with "help wanted" signs nearly everywhere."

While the article doesn't mention any state-specific initiatives, the fact is painfully obvious to the business community that compared to where we were eight years ago, Ohio has become a great place to operate. Important among those initiatives - one for which many of you voted - is the Business Investor Deduction.

Prior to the enacting of the Business Investor Deduction, Ohio is not what I would have considered to be a business-friendly state. Due to our system of local taxation, our border states already had a multi-point rate advantage compared to our state. In addition, the Commercial Activity Tax, which is levied regardless of profitability, acted as a further disincentive to locate in Ohio. With the enaction of the Business Investor Deduction (BID), the playing field was substantially tilted to the advantage of all of us who call Ohio "home."

As a tax practitioner who deals with many West Virginia clients, I often find myself assessing what their tax liabilities would have been had they located in Ohio - and I let them know it! I'm proud of the business environment in Ohio and try to encourage prospective entrepreneurs and existing businesses to locate in our state, but House Bill 166 would seriously damage the competitive edge we now enjoy.

Under the current BID and tax rate structure, a pass-thru entity with $200,000 of profit operating in Steubenville would pay $4,000 in state and local income taxes - in this scenario all to the city. With the changes approved in HB 166, the tax burden would increase to approximately $6,800 - a 70% increase. In addition, this same entity would continue pay CAT tax, further inhibiting its ability to expand.

You might ask why that $2,800 would be such a big deal, but if you've ever been behind on sales taxes or payroll tax deposits - especially Ohio City withholding where, thanks to municipal tax reform, paying a single day late can cost you an extra fifty percent in penalties - you'd understand.

In 2018, our firm prepared 156 returns for clients that benefited from the Ohio Business Investor Deduction. A significant number of those clients would be impacted by the changes passed in House Bill 166. These are not people who live in million dollar homes. These are people who live in average neighborhoods who get up and go to work every day. The only difference is that these are people who don't just cash paychecks - they create them. And while you might argue that the remaining $100,000 exemption is generous, keep in mind that even the more punitive provisions of the federal tax code like the investment income tax and increased capital gains rates don't affect married taxpayers until their incomes exceed $250,000.

Ohio's BID is a great selling point on the border, but its value can't be underestimated as you move toward the middle of state. Too many times I've heard that owners pocket tax savings instead of passing them on in the form of increased wages or by reinvesting those savings in their businesses, but it's hard to discount the stimulative effects of sound tax policy. There's a reason why federal tax incentives like accelerated or bonus depreciation on business assets or employer deductions for retirement account contributions continue to exist - because they work.

For you to significantly scale back a policy that promotes small business development and to support one that puts us back near the bottom of the barrel is no different than erecting signs at the borders that read **"OHIO - WE HAVE ENOUGH BUSINESS."**

In closing, allow me to say that it has been my honor to stand before this committee and I thank you for affording me the opportunity to provide testimony that you might consider relevant in your deliberations.

If you have any questions, I'll be happy to try and answer.

Link to Moore article:

https://www.realclearpolitics.com/articles/2019/05/14/ohio_the_comeback_state_140319.html