87th House District
Crawford, Morrow, Wyandot
And parts of: Marion, Seneca

Committees
Infrastructure and Rural Development
Transportation and Public Safety (Vice-Chair)
Ways and Means

From the desk of:
Riordan McClain
State Representative

Columbus Office
Vern Riffe Center
77 S. High Street
11th Floor
Columbus, Ohio 43215
(614) 644-6265
rep87@ohiohouse.gov
www.ohiohouse.gov

Thank you, Chairman Merrin, Vice Chair Riedel, Ranking Member Sobecki, and fellow members of the Ways and Means Committee. Thank you for allowing me to provide sponsor testimony today on House Bill 234 alongside my joint sponsor.

To begin, I'd like to remind us all that all taxes are paid the people. Even those like the Commercial Activity Tax that are hidden within our business tax liability structure, it ultimately gets passed to the consumers in the cost of goods. Reducing business tax liability results in lower prices at the register, higher salaries for employees, and more innovation.

In 2005, when the General Assembly passed the Commercial Activity Tax in House Bill 66 it was praised as a simplification. And it was, it phased-out the corporate franchise tax and tangible personal property tax for most businesses. The CAT replaced a tax system that was outdated, inefficient, and burdensome. But the argument that it is better than what it replaced doesn't mean that it's good.

Low and Broad. That's the goal for the CAT, and the seeming attractiveness for the policy. But, as we've experienced in years since 2005, the actual effect on businesses has been very different.

Any gross receipt-based tax policy inherently creates disparate effective tax rates for businesses and industries. It doesn't rely on net-profit margin or even profitability at all. The effect of this is reflected in Ohio by the creation of many exclusions or "carve-outs" since 2005 as we've realized the CAT simply doesn't work for some Ohio based operations or industries. We are up to #42 on the growing list.

A 2002 tax reform commission in Washington state studied the state's Business and Occupation (B&O) Tax which is similar in gross receipt-based setup to the CAT. The study concluded that the B&O Tax "results in substantial tax pyramiding and is highly non-neutral across products and industries, violating basic principles of good tax design." [1]

Tax pyramiding is when taxation is repeated at multiple points within a production chain which ultimately results in excessively high rates on products involving multiple companies along the production path and lower rates on products produced with limited production stages or entirely in-house.

A highly non-neutral tax results in drastically different incentives among businesses and thus drastically different reactions.

Simply stated, the goal of low and broad policy is distorted with the gross receipt-based policy into a wild arrange of effects on Ohio businesses. Equity and parity in application doesn't happen as intended.

Economists Andrew Chamberlain and Patrick Fleenor produced a Special Report on behalf of the Tax Foundation and found: "Gross receipts taxes suffer from severe flaws that are well documented in the economic literature, and rank among the most economically harmful tax structures available to lawmakers. The economic problems with gross receipts taxes are not the result of poor implementation by lawmakers. The flaws are inherent in their design. State lawmakers searching for alternatives to complex state corporate income taxes should be wary of gross receipts taxes and should instead seek more economically neutral ways of taxing business." [2]

We want to see businesses in our state succeed but the CAT is making it harder to do so. HB 234 is about promoting economic growth in the state. By eliminating the CAT we can further promote Ohio as a place to run your business, create jobs, and increase the quality of life for Ohioans.

Thank you for the opportunity to provide testimony today. We would like to welcome any questions from the committee at this time.

---

[1] Source: Washington State Tax Structure Study Committee, "Tax Alternatives for Washington State: A Report to the Legislature," Volumes 1 & 2 (November 2002).

[2] "Tax Pyramiding: The Economic Consequences Of Gross Receipts Taxes" By Andrew Chamberlain and Patrick Fleenor, Tax Foundation Special Report (December 2006) https://files.taxfoundation.org/legacy/docs/sr147.pdf