



Representatives Cheryl Grossman and Michael Henne

Ways & Means Committee
February 13, 2013

Statehouse Room 116
4:00 p.m.

HB 5 Sponsor Testimony

Chair Beck, Vice Chair Boose, and Ranking Member Letson, Ohio is at a critical time in history as we work together to provide and retain jobs in Ohio and improve our economy. Thank you for the opportunity to provide sponsor testimony on HB 5, one of the most important pieces of legislation the Ohio General Assembly will consider this session.

The language contained in HB 5 is a direct result of continued negotiations between representatives of the Municipal Tax Reform Coalition and city representatives. It represents compromise language to mitigate potential negative revenue impact incurred by municipalities and businesses. It also reflects the shared goal of making Ohio competitive nationally and internationally and strengthening our economy.

Before being elected to the Ohio House, I served for 12 years as Mayor of Grove City. It was a tremendous opportunity for me to learn much about the operations of a city in Ohio and its reliance on municipal income tax revenue. Due to that background, I understand a predictable revenue stream is important to Ohio's municipalities as we strive to create a uniform municipal income tax code. I can also share that we are working diligently with our partners to make this as revenue neutral and as business friendly as we possibly can make it. Since the introduction of last session's HB 601, we have continued to meet with representatives from the OML, city finance directors, the Ohio Chamber, and the Ohio CPAs, former Tax Commissioner Tom Zaino and the NFIB so that all parties have had a seat at the table for the past twenty months. This is a highly complex and challenging opportunity we have before us.

Municipal income tax legislation was first enacted in 1946 in Ohio. We are one of only a handful of states where municipalities assess and collect an individual and business income tax—all states except Ohio and Pennsylvania have substantially fewer cities assessing a municipal income tax. In Ohio, we have almost 600 cities utilizing almost 300 different forms in which to accomplish this. Ohio is the only state where each city creates their own definition of income, set their own rules and regulations, mandate use of their own forms and assess varied amounts of penalties and interest.

Two years ago, I served on the Tax Structure Review Study Committee and travelled the state to receive feedback on our tax system throughout the state. At every location, even though municipal income tax uniformity was not an agenda item, it was brought up by businesses throughout the state as a huge issue for them to deal with.

More recently, the Workforce Development Task Force travelled throughout Ohio during 2012. Again, the lack of municipal income tax uniformity was in the top three issues raised repeatedly as a major deterrent to businesses operating in Ohio. One of the recommendations listed in the committee report is to:

- Encourage a uniform municipal tax policy to be adopted to eliminate multiple and confusing tax filings that are a burden and cost to manufacturers.

The following includes some of the statements shared at the hearings:

- From Stephen Lewis (Director of Strategic Planning, Manufacturing Business Office, Ford Motor Company): “Our challenge is the complicated municipal tax system in Ohio. Ford files numerous city tax returns and each return has different sets of rules on how things are taxed remitted, different muni tax withholding rules are burdensome as an employer, it is an overly complex and burdensome system and uniform rules would help.”
- From Mark Russell (President & Chief Operating Officer, Worthington Industries): “Muni tax needs to be simplified. It is a historical accident of complexity, and we support streamlining.”
- From Michelle Kuhrt (Vice President Corporate Tax, Lincoln Electric): “Ohio has without question the most complicated municipal taxing system in the country. MAPI is surprised and amazed at Ohio’s muni tax system; it is a significant administrative burden.
- From Rodney Phipps (VP of Finance, Pentaflex): “Municipal tax reform needs to happen- it’s a mess in the state of Ohio.

Municipal income tax uniformity has long been a legislative priority for many individuals and business taxpayers. That fact is exemplified by the 25 member Ohio Municipal Tax Reform Coalition, a broad-based coalition of state and local professional associations, trade organizations and Chambers of Commerce representing virtually all sectors of Ohio’s employers. The 25 member coalition consists of:

- Ohio Society of CPAs
- Ohio Chamber of Commerce
- NFIB-Ohio
- Associated Builders and Contractors of Ohio
- Associated General Contractors of Ohio
- Central Ohio NECA (National Electrical Contractors Association)
- Greater Cleveland NECA
- North Central Ohio NECA
- Columbus Chamber of Commerce
- Dayton Area Chamber of Commerce
- Greater Ohio Policy Center

Ohio Association of Realtors
Ohio Cable Telecommunications Association
Ohio Contractors Association
Ohio Council of Retail Merchants
Ohio Home Builders Association
Ohio Insurance Institute
Ohio Manufacturers Association
Ohio Newspaper Association
Ohio Produce Growers & Marketers Association
Ohio Restaurant Association
Ohio State Bar Association
Ohio State Medical Association
Ohio Trucking Association
Toledo Regional Chamber of Commerce

Thank you. I will now give way to my Joint Sponsor, Rep. Mike Henne.

The basis for good tax policy should include simplicity and predictability. Neither is currently found in Ohio's municipal income tax code. The compliance burden is particularly difficult for small businesses who cannot afford to hire dedicated staff or outside professionals to research the potentially 600 different definitions, rules, and regulations that are not only imposed on their business but their employees as well. Either option adds an expense that is not necessary in other states. Further, for taxpayers who prepare and file their taxes in multiple cities, it is not uncommon for the cost of complying with the law to exceed the tax liability.

The current structure is an economic development barrier to retaining and attracting jobs and a costly regulatory burden for businesses and individual taxpayers. We have spoken with international site selectors who have indicated that our state's complex local tax structure is one of the top two barriers for doing business in Ohio. We have also spoken with companies who have relocated to Ohio who have indicated if they knew of our local tax structure that they would have never moved to Ohio. Many of these Ohio businesses not only have to keep track of how many hours were worked in what jurisdiction, they likely have to file under different terms in each one-making Ohio by far the most challenging state in the nation on how this is done. A recent Columbus Dispatch Editorial said "Ohio's businesses operating in more than one city need a break from the state's crazy-quilt system of municipal income taxes." It is time for Ohio to correct this system.

As my Joint Sponsor previously mentioned, we have met with interested parties for nearly two years. I want to point out a few areas of importance which compromise was made to please both the business community and the municipalities:

- The twelve-day rule is one of the biggest burdens on Ohio's mobile workforce. Municipal representatives and tax administrators wanted to keep this rule as is. However, the business community needed an extended exclusion; they asked for 30 days. We met in the middle and decided on a 20-day rule.
- Another area of compromise was the net operating loss carry forward period. Municipalities asked for a zero NOL whereas the business community would have preferred that the municipal tax code be uniform with the State and Federal NOL allowance of 15 years. In order to make Ohio more competitive for new investments and jobs, we

decided to allow for a 5 year NOL. Two-thirds of Ohio cities have an NOL, most of those permitting for a 5 year period.

- Lastly, some municipalities tax at the entity level, some at the individual level, or some even use both methods depending on circumstance. We wanted consistent treatment so it was determined a hybrid method was the fairest. The compromise was to tax at the individual level but withhold at the entity level.

We welcome the opportunity for continued input from the various interested parties as we work together in the 130th General Assembly to make this a significant bill that can be supported by all interested parties on behalf of the people of Ohio and Ohio's future.

Thank you, Chair Beck. We will now answer any questions the committee may have.