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2020 Tax Policy Study Commission

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Good afternoon Chairman Peterson, Chairman Schaffer and members of the 2020 Tax Policy Study Commission.

My name is Kent Scarrett and I am the Executive Director of the Ohio Municipal League. I come before you today to share with you deep concerns from our membership. These concerns resulted from the testimony presented by advocates for tax preparing and business interests as they shared with you at this commission’s last hearing a "wish list" of changes. They encouraged the Ohio legislature to enact these changes, further altering municipal income tax ordinances and depriving Ohio cities and villages of the ability to generate revenue locally and to support the continuation of basic municipal services that businesses and residents demand and deserve every day.

In the testimony presented by the architects of HB5, the municipal income tax reform bill passed in November of 2014 and became effective January 1st of this year, you were presented with their version of the blueprint for "Phase II" of the ongoing threats to financial stability for Ohio's municipalities. As their next step in "reforming" how the municipal income tax is administered, they seek this body's approval to institute a centralization collection scheme. Were this to happen, the over 600 municipalities that have instituted a municipal income tax would lose the ability to collect or have direct access to their "life blood" revenue generated through the only mechanism available to Ohio cities and villages.

Even though the proponents of HB5 received almost every item they requested in the last local taxation "reform" bill, it has not satisfied their desire to continue to drive Ohio's municipalities further into financial insecurity. State centralized collection of municipal tax revenues will deny municipalities the ability to properly audit and enforce the business and resident filings that are owed those communities where employees work, raise their families and enjoy the services of their hometowns.

Our members unanimously oppose the concept of creating such a centralized collection and redistribution system for the revenue they depend on every day. As one legislator wisely remarked when talking about the idea, "It didn't work in the Soviet Union so why do they think it would work here?!" It is important to note that roughly 70% of Ohioans who live in a municipality that imposes an income tax happen to live in a self-collecting municipality.

Some members may not be aware that there is currently a centralized collection system right now for business filers to centrally file and pay their Net Profits municipal income tax returns and all employee withholding tax payment filings though the Ohio Business Gateway portal created by Governor Taft and the Third Frontier initiative. The Business Gateway portal is challenged by a lack of investment by the state and needs weaknesses in its functionality addressed; however, if proponents of centralized collection were honest about their motivation to ease the cost of compliance for business filers, as they have testified, it makes better sense to fix this year's-long investment by the Ohio General Assembly and not scrap access to greater efficiencies in tax filing for the business community.

During the June 20th commission hearing, you also were presented with the policy advice that the state should mandate that municipalities where a wage earner lives must grant 100% credit for any municipal taxes paid to another municipality where that resident may work. In effect, if the state were to initiate such a draconian municipal tax policy, millions of Ohioans would have no obligation to financially support the services they and their families benefit from in their home-base municipality. When Ohio's workforce comes home, they enjoy such basic services as a trained police force, dependable fire and rescue services, safe roads, clean water, controlled zoning practices and other services that make a civilized community a safe place to live and prosper. The revenue consequences, were the legislature to heed their advice, would be untold. But understand, it would not take long for Ohio's workforce to flee the Buckeye state, making economic development success a thing of the past.

Lastly, the third pillar of the business and tax preparation advocate's plan, targeting the very core of support for local services through the only reliable source of revenue generation for municipalities, is to eliminate the uniformly applied "throwback" rule. The elimination of the "throwback" rule was a part of HB5 in its early drafts but was removed by thoughtful members of the legislature due to the tremendous financial impact that would result. The "throwback" provision applies to sales generated though warehouse and distribution centers when a sale is initiated at point "A" and then shipped to location "B". The impact to communities across the state with businesses operating in these types of models is so significant that one city roughly ten miles from Columbus would lose 25% of their general revenue were the "throwback" eliminated. The city of Athens has previously calculated after reviewing only the top 5 employers in their community, if the "throwback" rule were eliminated, their revenue loss would be over $76,000 annually.

Were I afforded the time today, I could go into detail about the negative effects that past changes in state taxation and revenue sharing policies have already had on cities and villages of every size and in every region of Ohio. I know that each legislator here has heard repeatedly from their district municipal officials and other local government partners of the sacrifices that have resulted from the following: the 2011 passage of HB 153, cutting the Local Government Fund by 56% and resulting in an approximate $535 million loss; the elimination of Ohio's Estate tax resulting in approximately $200 million in losses to cities and villages; the accelerated phase out of the Ohio Tangible Personal Property tax; and the reoccurring decreases in the distribution amounts to the remaining LGF by repeated cuts in the state income tax. These have all meant less revenue and fewer LGF dollars flowing back to Ohio communities. These changes have created unnecessary pressures on Ohio municipalities to financially plan for future investment, sustainability of safety service operations, infrastructure demands and capital improvement projects - all benefiting the state as a whole for continued economic recovery. The changes made to our cities and villages financial stability would never be brought upon any other employer sector in the state. But somehow, some of the most powerful special interests in the state have determined that local taxpayers aren't paying enough in municipal tax obligations and that somehow, when it comes to the demand for local services, that they should come at a higher premium or just be foregone.

To mayors, managers, police and fire personnel, this continued assault on local taxpayers is deeply troubling and seems counterintuitive to the state's desire to create a stable, safe and attractive Ohio for future economic prosperity.

On behalf of the Ohio Municipal League’s 735 members representing nearly 9 million residents and workers, we ask that the legislature consider how the policy decisions here at the Statehouse can impede the good work occurring all throughout the state by municipalities striving to provide an environment where businesses can be successful and where citizens can enjoy what Ohio has to offer.

Mr. Chairmen and Commission members, I appreciate the opportunity to testify before you and I would be happy to answer any questions you may have.