

Testimony of Joe Roman, Chair of the Ohio Metro Chambers Coalition on HB 64 Tax-related Proposals
Ohio Senate
Ways and Means Committee
May 20, 2015

Chairman Peterson and members of the committee, thank you for the opportunity to testify on the proposed tax-related provisions in House Bill 64. My name is Joe Roman; I am the current chair of the Ohio Metro Chambers Coalition and the President & CEO of the Greater Cleveland Partnership, the chamber of commerce in Greater Cleveland.

The Ohio Metro Chambers Coalition is made up of the Ohio Chamber and Ohio's eight largest metro chambers of commerce, representing small and large businesses across our state. The Coalition has worked together for the past several years to jointly advocate on state issues of common interest, including state budgets, education, Medicaid, tax reform and transportation policy issues.

Soon after the release of the executive budget, the Coalition commissioned a study from EY to analyze key components of the proposed tax reform plan to better understand the direct impact the proposal would have on the business community. One of our colleagues from the Ohio Chamber of Commerce is here today and can address technical questions related to the study. Based on the results of that study, I want to express the concerns of our Coalition and the members that we serve, as we do not believe the as-introduced version of House Bill 64 presents the right tax plan for Ohio. The House-passed version is a step in the right direction and we want to work with the Senate to continue and strengthen that proposal.

Our concern exists primarily with three major areas that have been proposed as a part of a tax reform plan: 1) **increasing and/or bi-furcating the Commercial Activity Tax (CAT) rate**, 2) **expanding the sales tax base**, and 3) **paying for a personal income tax cut through tax shifting versus government efficiency**.

The CAT has been in place for 10 years. It is a broad gross receipts tax that generates significant amounts of revenue at low tax rates because it taxes virtually every transaction in the economic chain of bringing goods and services to market. This model was the joint commitment made among the business community, political leadership and other key stakeholders when the CAT was created in order to make the tax most effective.

According to the EY study, as the rate of the CAT increases, it becomes less marginal and begins to have a more negative impact on a number of Ohio industries – including construction (which would grow to an effective tax rate of 10.4% under the proposed CAT increase) and wholesaling (which would grow to an effective tax rate of 10.1% under proposed the CAT increase). Keep in mind the estimates in the EY study are based on a single stage of production. These numbers are compounded when pyramiding occurs. Moreover, bi-furcating the CAT rate raises concerns that a split rate will essentially amount to a tax increase on professional services and create another level of complexity in our tax code.

Expanding the sales tax base has many implications, especially when one considers the impact across Ohio where current combined local and state sales tax rates range from 6.5 to 8%. Based on financial modeling in the report, management services, manufacturing, healthcare, and social assistance are heavily impacted by a sales tax base expansion. These are key industries in Ohio's economy; if these estimates prove to be true, the impact may be the opposite of what we want, which is to boost the economic competitiveness of Ohio.

Lastly, the Metro Chambers Coalition developed a report in 2010 titled, *Redesigning Ohio*, which was a road map for transformational change for state government in the 21st century. We are pleased that a number of the recommendations from the report were implemented by the State of Ohio, including recent work on municipal income tax reform. A key recommendation that the House passed in its version of the state operating budget is the 2020 Tax Policy Commission, which will take a thorough, static and dynamic look at tax expenditures currently in Ohio law. Ultimately, the Coalition believes this will help our state determine how to make government more efficient and ensure we are receiving a high return on investment for the dollars we spend. As the legislature considers personal income tax cuts we encourage your work, but we continue to believe and ask that income tax cuts be funded by government efficiencies and not by shifting higher taxes from one group to the next.

The Ohio Metro Chambers Coalition continues to share the vision of the Administration and legislature to strengthen our state and create a positive economic development environment that creates opportunity for all. There is still much to be done on a tax plan that gets us there. We look forward to working collectively with all of you to develop a comprehensive plan that serves Ohio well. Thank you.