



**HOUSE BILL 64 TAX PROPOSALS  
WRITTEN TESTIMONY OF THE COUNCIL OF SMALLER ENTERPRISES (COSE)  
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OHIO HOUSE WAYS & MEANS COMMITTEE  
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Chairman McClain and members of the Ohio House Ways & Means Committee, thank you for the opportunity to provide written testimony regarding the tax proposals currently included in House Bill 64 (HB 64).

For over 40 years, the Council of Smaller Enterprises (COSE) has provided a voice for small business owners as they aim to achieve their idea of success. Our members are primarily very small businesses with less than 50 employees and represent all sectors of Ohio's economy. And, the vast majority are organized as sole proprietors or pass through entities and would therefore be most impacted by some of the specific business and income tax proposals in HB 64.

COSE is a non-partisan, member-driven organization and, as such, we regularly engage our members in an ongoing dialogue regarding the impact of policy, legislation and regulation on the growth and success of their businesses. Regardless of their politics, owners uniformly agree that taxation has an impact on their success and an impact on the decisions they make in their businesses. Therefore, significant policy changes regarding taxation must be thoughtfully constructed in order to continue to foster a healthy environment for Ohio's small business community.

We enjoy both an active dialogue with our members and with many of you as leaders and policymakers in our state. As such, we believe it is important to relay our unique perspective on behalf of Ohio's small business owners and job creators.

Recent discussions resulting in COSE's 2015-2016 Public Policy agenda resulted in support for tax policy at all levels of government that is transparent, easy to understand and comply with and supportive of increasing commerce and investment for small business.

With that in mind, we have several specific reactions to what has been proposed. We are in the early stages of collecting data and information from our members on the specific impacts of the elements of these proposals. While it will take some time to gather and review that data, we wanted to provide some perspective in the interim that might help shape your own thinking as you debate the specifics of the proposal.

1. **Personal income tax relief has a direct benefit on small business owners.** As most small businesses are pass through entities, a reduction in personal income taxes provides more resources for these owners to use as they decide. There is no disconnect between their business and their personal life. As such, it is fair to assume that some of those resources will find their way into investing further in the success of their business and their employees. While some may argue that these reductions are individually inconsequential, that view does not reflect the reality of their day-to-day operations where just a few hundred dollars might change what they

are able to accomplish in their business—a new set of ads they can run on social media; a bonus for a staff member on the verge of leaving; new marketing materials; the ability to buy some exposure at an important industry trade show; etc. While for most owners, this specific proposal may only result in a few hundred to under a thousand dollars, that’s still “real money” to them that can be productively invested.

2. **The proposed 100% exemption on taxes on business income for pass through entities with \$2 million or less in annual gross receipts provides a similar and significant benefit.** This exemption would expand on the current permanent fifty percent deduction on business income for business owners and 2014’s seventy-five percent temporary deduction. We have heard from many small business owners about the value of that deduction as a resource for additional business investment for small business owners that can produce thousands of dollars of additional capacity for re-investment in their businesses.

Again, while some are dismissive of the impact, consider our recent experience with small business capital needs. In the last four years, COSE has hosted a business pitch competition and among the roughly 50 semi-finalists over those four years, only three had capital and investment needs of more than \$50K. And, most needed \$5 - \$20K to take a significant step in their business. While it is unlikely that the dollars saved by these tax deductions and exemptions can be enough to fully fund the hiring of a new employee on its own, it can contribute to the capital required to make the small changes that can lead to big success for small business owners. Continued support of deductions and exemptions of business income for pass through entities is absolutely critical to the support small business owners need for the investments they are making in our economy.

3. **We do not believe the current construct of shifting tax burdens from small businesses of \$2 million or less in gross receipts to those businesses with more than \$2 million in receipts through an increase in the commercial activity tax (CAT) rate is appropriate.** The success of these smaller businesses will not create offsetting revenues for those larger businesses and there is no clear path to a benefit for those larger businesses that justify the additional cost being shifted to them.

Given that business growth provides opportunity for increased state revenues through tax base expansion and employment, we believe that you should look to create greater efficiency within government to fund support for small businesses. The state budget continues to grow at a rate far beyond inflation. Holding the line on the current CAT rate has to be a priority for you as policymakers. When the CAT was implemented there were great concerns about the possibility of the CAT becoming an easy target for incremental cost increases to businesses. We are not willing to see that happen, even if it means maintaining today’s CAT rate for small business at the status quo.

4. **We have significant concerns about further expansion of the sales tax to more categories of business services.** While we are generally supportive of a consumption approach to taxation that trades off sales tax increases and sales tax base

expansions for reductions in income taxes, the pyramiding effect of the sales tax in the proposed new categories of taxed business to business services is of great concern to us.

The right answer on this issue is unclear. However, in any discussions about consumption taxes that we have been a part of, we have concluded that it requires a very specific evaluation of what should and should not be taxed and what level of basic exemption should exist to not make the tax regressive for those at the lowest economic level. We have significant concerns about the breadth of the expansion, the unintended impact of the layering of these additional costs within a small business' cost structure and the specific definitions that apply to certain categories in the expansion, like management consulting. While we are open to a full discussion and participation on an overhaul of these taxes, we do not believe it can be done in the time available to conclude this budget.

At a minimum, the Governor's budget proposal is a strong signal that he views small business vitality as a priority and that he believes that creating an environment in which we can continue to grow Ohio's current small businesses is a key to Ohio's future. We hope that the results of your work will support that direction.

While the actual impact of the proposal on individual small business owners will vary, we urge you to continue considering and choosing to advance tax relief for small business as a big part of the discussion. Small business owners are smart, capable, resourceful people. That perspective is often lauded by policymakers as they talk about the importance of small businesses as job creators and local community builders. While it would be impossible to point to exactly how the tax savings will actually be used by small business owners, we should not underestimate what these individuals can do for the economy of our state with any additional resources they are able to access.

Good tax policy considers all the potential ramifications associated with any reforms that are made and we welcome the opportunity to continue working with you and your colleagues to foster a strong, vibrant small business community in Ohio.