



**Ohio 2020 Tax Policy Study Commission**  
**Written Testimony of Marty McGann, Senior Vice President of Advocacy**  
**Greater Cleveland Partnership**  
**January 20, 2016**

Chairman Peterson and members of the Commission, my name is Marty McGann and I represent the Greater Cleveland Partnership (GCP) – Northeast Ohio’s chamber of commerce. This testimony is also on behalf of the Council of Smaller Enterprises (COSE), an advocate for the small business community for more than 40 years. Together, we represent the most comprehensive small, middle market and large business partnership in the state with more than 10,000 business members in Northeast Ohio. On behalf of our members, we are grateful for this opportunity to provide testimony to the Ohio 2020 Tax Policy Study Commission.

The business owners we represent have a clear perspective on what has helped to boost the economic competitiveness of their businesses and what has not. Therefore, we believe it is important to reiterate our consistent perspectives – on behalf of Ohio’s job creators – as the Commission examines and makes recommendations on current tax policy:

- 1) Seek greater efficiencies in state government to allow for personal income tax reductions versus shifting the tax burden from one group of businesses to another
- 2) Permanently preserve the 100% tax exemption on the first \$250,000 in business income
- 3) Maintain or lower the current commercial activity tax (CAT) rate and maintain or increase the current CAT exemption level
- 4) Be thoughtful about the implications of expanding the sales tax base and/or increasing the rate

We are pleased that the recently passed state budget called for the creation of the 2020 Tax Policy Study Commission. It is important to have this body in place to take a thorough, static and dynamic look at Ohio’s tax structure. We believe the process will ensure we are receiving a high return on investment for the dollars we spend. As the Commission and, ultimately, the legislature considers personal income tax cuts we encourage your work, but 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 majority of our members are pass-through entities. Therefore, a reduction in personal income taxes has a direct benefit on them. We support the strongest personal income tax relief possible that will not increase the already substantial financial burden imposed on businesses.

As you know, the final version of the state budget granted a 75% tax deduction for the first \$250,000 in business income for 2015 and a 100% exemption beginning in 2016. We have heard from many small business owners about the value of this policy as a resource that can produce thousands of dollars of additional capacity for re-investment. Permanently preserving the 100% exemption on the first \$250,000 in business income and continued support of deductions and exemptions is absolutely critical to the support small business owners need for the investments they are making in our economy.

The CAT has been in place for more than 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.

However, there were concerns at that time – as there are today – about the possibility of the CAT becoming an easy target for incremental cost increases on businesses.

During the early stages of the budget process, GCP along with the Ohio Chamber of Commerce and the other metro chambers across the state commissioned a study from Ernst & Young (EY) to examine the impact of proposed changes to the CAT. The EY study showed that 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 and wholesaling. The estimates in the EY study were based on a single stage of production. These numbers are compounded when pyramiding occurs. Similar concerns are shared by the small business community, as an increase to the CAT and/or lowering of the exemption level would represent a tax increase on small business owners. In addition, 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. For these reasons, we remain opposed to an increase in the CAT rate and lowering the CAT exemption level even it means maintaining the status quo in this specific area.

Lastly, 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 EY study, 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. We have significant concerns about further expansion of the sales tax to more categories of business services due to the unintended impact of the layering of these additional costs within a business' cost structure and the specific definitions that apply to certain categories in any expansion, like management consulting.

We continue to share the vision with of our state leaders to strengthen Ohio by providing for a positive economic development environment that creates opportunity for all. Small business tax relief and greater government efficiency versus shifting taxes are smart approaches to get us there. We welcome the opportunity to continue working with you to develop a comprehensive plan that will serve Ohio well. Thank you.