



Date: January 17, 2022

To: Members of the Ohio Ways and Means Committee

From: Jessica Ward, Director of State Affairs

Re: Support HB 234

Chair Merrin, Vice Chair Riedel and Members of the Ways and Means Committee, let me first express my gratitude for holding a hearing on HB 234. On behalf of taxpayers nationwide, National Taxpayers Union urges you to support this essential tax legislation authored by Representative Gross and Representative McClain.

Notwithstanding economic data that highlights the damaging effects of the Commercial Activity Tax (CAT), Ohio still maintains this antiquated tax that hinders the well-being of employers and employees across your great state. The CAT, at its core, discourages competitiveness, deters investment in Ohio, and profoundly disregards basic economic merit.

Understandably, this tax was implemented in 2005 in an effort to reduce and simplify taxation on business. It was a component of a tax package that did ultimately lessen the overall tax burden. While perhaps initially prudent, the economic landscape has since changed and the CAT is one of only a few gross receipt taxes still levied in the nation. Typically, states levy business taxes on net income, collecting taxes after expenses are deducted, as opposed to taxing gross revenue, which the CAT unreasonably does. Levying taxes on the entirety of a company's gross receipts hardly seems sensible given it ignores deductions for compensation, costs of overhead and other various expenses needed to maintain operations.

Furthermore, the CAT is overly comprehensive, applying to any person or business which "owns or uses any capital in Ohio, is authorized to do business in Ohio, has bright line presence, or can otherwise be reached by Ohio for taxation under the U.S. Constitution." During fiscal year 2020, CAT collections approached \$2.0 billion. While that staggering number is certainly indicative of Ohio's reluctance to eliminate the tax, the nature of the CAT means it frequently applies to businesses who are not profitable. Simply put, gross receipts taxes are completely detached from a business' ability to

provide payment and does not factor in significant losses potentially incurred during periods of economic anguish.

There is general agreement that gross receipts taxes lack neutrality and are economically destructive. This has resulted in diminished popularity for this form of taxation. Repealing the CAT will undoubtedly have a positive impact on Ohio business owners and taxpayers simultaneously struggling with the pandemic's disruptive impact during growing inflation.

Under the proposal before the committee, the tax would be phased out incrementally over the course of five years, a legislative goal strongly supported by National Taxpayers Union. Eliminating Ohio's antiquated CAT continues to move Ohio in the direction of positive economic growth and prosperity. As a small business owner myself, I graciously ask you to support this legislation.

Thank you for your time and consideration.

Sincerely,

Jessica Ward
Director of State Affairs
National Taxpayers Union
jward@ntu.org