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Good intentions turn into trouble for cities

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The past decade, cities and their residents have not fared well at the Statehouse. Republicans, in the majority except for a brief Democratic interlude in the House, have looked to narrow municipal authority along several fronts, from governing guns to oil drilling to traffic cameras. Lawmakers also have grabbed for money, rerouting revenues to state coffers, most notably, by slashing the Local Government Fund.

Now the legislature appears on the cusp of striking another blow through an update of municipal tax law, the Senate approving its version last week, returning the bill to the House. This effort has been in the works for two years, and it began with a noble intention. One thing that businesses find frustrating about Ohio are the many taxing jurisdictions. So it makes sense to bring greater simplicity and uniformity to the way municipalities tax businesses.

That was the welcome objective, and in many ways, lawmakers have advanced the cause. For instance, cities should have a consistent approach for treating net operating losses. It is smart to shrink the number of forms and otherwise streamline tax filing. Unfortunately, lawmakers appear determined to ensure that the final result will leave cities with less revenue.

Innovation Ohio, a Columbus think tank, puts the shortfall to communities at $82 million a year. That sum may not seem significant in view of the more than $4 billion a year raised statewide through municipal income taxes. The trouble is that this episode follows other revenue losses — beyond what happened to local government funding. Lawmakers erased the estate tax, a substantial share of the money going to communities. They backed away from reimbursing local governments for changes in the tangible personal property tax and the kilowatt hour tax.

All told, according to Innovation Ohio, local communities are facing an annual reduction of $495 million. One Republican state senator, in defending changes to the municipal income tax, argued that “government is not the customer here — the taxpayers are.” Yet taxpayers, in addition to businesses, benefit when communities have enough to invest in roads, schools, safety and the delivery of services.

The disappointment is that lawmakers easily could make the bill revenue neutral — and improve the legislation by doing so. For instance, they could wipe out the loophole that permits firms to

use passive investment companies to reduce their reported income. Or they could remove the exclusion for certain employer contributions to executive retirement plans.

Hard to see the simplicity or uniformity in preserving for Cincinnati and Findlay tax breaks on income from stock options. The bill then allows other cities to adopt the carve-out for one year. What began as a worthy endeavor has been marred, Republican lawmakers again making the challenges steeper for cities.

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