

THE PLAIN DEALER

Municipal income tax overhaul passes Ohio Senate



The Ohio Senate on Wednesday passed legislation to overhaul the state's patchwork system of 300 or so different local tax forms. *(Rich Exner, Northeast Ohio Media Group)*



By **Jeremy Pelzer, Northeast Ohio Media Group**

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COLUMBUS, Ohio— The Ohio Senate on Wednesday passed legislation to revamp the state's convoluted municipal income tax system.

House Bill 5, which passed the Senate 23-8, now faces a final vote in the Ohio House, **which approved a slightly different version of the legislation last year.**

The result of years of debate between business groups and local governments, HB5 aims to standardize and streamline parts of the state's patchwork system of 300 or so different local tax forms.

Business groups have pushed for the changes, saying it's often confusing and costly for companies that do work in multiple cities to comply with all the different income tax forms, deadlines and rules.

But local officials claim the legislation goes far beyond the stated goal of promoting uniformity, as it includes a number of business-backed tax breaks that would slash cities' income-tax revenue.

If HB5 passes:

- Businesses with an annual income of \$500,000 or less would only be charged municipal income tax in the area they're located in.
- Workers on a job in a different city wouldn't have to start paying income tax in that municipality during their first 20 days there. Under current law, the threshold is 12 days, after which employees are charged for every day they did work in the city.
- Under a phase-in plan starting in 2016, companies would also be able to carry forward net operating losses for five years in order to offset taxes on future profits – a policy that most Northeast Ohio municipalities already have but is less common elsewhere in the state. The bill would also allow individual taxpayers to carry forward net operating losses.
- Local governments would no longer be able to tax supplemental retirement benefits given to company executives.

Sen. **Bob Peterson**, a Clinton County Republican, said in a Senate floor speech that the legislation is a "balanced compromise bill with input from everyone involved."

He said the legislation would particularly benefit small-business owners who are burdened by the complexities of the state's current municipal income-tax system.

Sen. **Dave Burke**, a Marysville Republican, said local governments could also benefit, as simplifying the tax system makes it more likely that businesses will pay their taxes.

And even if city governments lose some money because of the reforms, their residents will have some more cash in their pockets, said Republican Sen. **Bill Coley** of Butler County.

But local officials from around Ohio have said the changes will significantly reduce their income tax revenue at a time when they're already reeling from state funding cuts and the end of the tangible personal property tax and estate tax.

Communities would stand to lose an estimated total of more than \$82 million per year as a result of the reforms, **according to a report released last month** by Innovation Ohio, a Columbus-based progressive think tank.

The tax exemption on executives' supplemental retirement benefits alone would cost Cleveland an estimated \$3 million per year, according to Nassim Lynch, income tax administrator for Cleveland's **Central Collection Agency**.

Sen. **Charleta Tavares**, a Columbus Democrat, said in a floor speech that the bill "is bloated with special interest carve-outs" and "benefits the few at the expense of the many."

The lone Republican "no" vote came from Dayton-area Sen. Peggy Lehner. She said HB5 was a "very good" and "necessary" bill, but she said she promised local officials in her district that she would not support further cuts to their revenue.

Two Democrats, Sens. **Edna Brown** of Toledo and **Eric Kearney** of Cincinnati, voted for the legislation.

Original Article:

http://www.cleveland.com/open/index.ssf/2014/12/municipal_income_tax_overhaul.html