Ohio CEOs take lead in tax rewrite

Added penny sales tax likely to be extended

By William Hershey

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COLUMBUS | Gov. Bob Taft and Republican legislative leaders have a publicly silent, but influential, partner in their campaign to overhaul the state's tax code to boost Ohio's economy.

The Ohio Business Roundtable, an independent, nonpartisan group made up of chief executive officers from about 80 major corporations, has been working with Taft and lawmakers on proposals to make the state's tax climate a "distinct public asset" in Ohio's economic growth and standard of living, said Richard Stoff, roundtable president.

Stoff declined to release details of the group's proposals. But several people who have been briefed said the ideas include:

•Enacting a gross receipts tax on business transactions in Ohio — a tax with a broad base, a very low rate or rates and a cap on what would have to be paid.

•Eliminating Ohio's corporate franchise tax — the main state business tax — and the tangible personal property tax, which businesses pay on machinery, equipment and inventories with the proceeds going to counties, municipalities, townships and school districts.

•Reducing Ohio's personal income tax rates by about 20 percent, with provisions to exempt some low-income Ohioans from paying the tax.

•Broadening the base of the state sales tax to include more services, possibly including legal and accounting services.

•Keeping all or part of the 1 percentage point increase in the state sales tax. The increase is set to expire June 30.

•Increasing the cigarette tax from 55 cents a pack to as much as $1.

•Increasing taxes on alcoholic beverages.

•Enacting targeted business tax incentives.

Asked about the proposals, Stoff said they represented the "basic gist" of the group's plan. He said, however, the business group also wants to link its tax-reform proposal to responsible state spending practices.

"Our guiding principle is to provide government with stable but sufficient revenue," he said.

Stoff said the roundtable has used five principles in putting together its plan — growing the state's talent base; fostering new capital investment in manufacturing; broadening the tax base to include all segments of the economy to assure fairness; stimulating entrepreneurial and startup business activities; and making the tax system fair, equitable and simple.

The business group, like Taft and legislative leaders, has made overhauling the tax code to promote economic growth its top priority, Stoff said.

He said the roundtable was spending a substantial amount and has retained former Ohio Tax Commissioner Tom Zaino and Ernst & Young, a global business services company, to work on the plan.

The group wants to measure what tax proposals would do to increase Ohio's gross state product, produce jobs and create capital investment.

"All have a dynamic feedback effect on the tax revenues that are paid into the state coffers," Stoff said.

Taft is to make public his tax overhaul proposals on Feb. 8 in his State of the State speech.

Orest Holubec, Taft's spokesman, confirmed that the governor has been working with the roundtable.

Also, Holubec said, the "gross receipts tax is something people have talked about" and is "one of many options that could generate revenue" to replace taxes that might be eliminated or lowered.

Holubec also said Taft is "looking at sin taxes as well," which means taxes on cigarettes and alcoholic beverages.

"No final decisions have been made," he said.

The debate about taxes is accompanied by pressure to control state spending.

Secretary of State J. Kenneth Blackwell is leading an effort to amend the state Constitution to mandate spending limits. His proposal would require a three-fifths legislative majority and a vote of the people to increase spending above the previous year's level, adjusted for inflation and population growth.

Taft is considering a plan of his own to limit spending.

On the tax side, state Sen. Ron Amstutz, R-Wooster, chairman of the tax-writing Senate Ways and Means Committee, said a gross receipts tax is an option that deserves serious consideration.

Amstutz said, as did others, that tax overhaul proposals are a "work in progress."

"We want to move away from taxing business investment and away from taxing capital and toward more of a consumption-oriented taxation that will help our economy grow," he said.

The only other states with a gross receipts tax like the one being considered by the roundtable are Washington and New Hampshire, according to one Ohio tax expert.

The Washington tax uses different rates for different types of business activity. Amstutz said it's his understanding that the roundtable's proposal would call for more than one rate for a gross receipts tax.

Under the current corporate franchise tax, businesses are taxed on their Ohio net worth or Ohio net income, whichever is greater. Critics, however, have said loopholes permit some corporations to pay little or no corporate franchise tax.

The corporate franchise tax accounted for 16 percent of the state's general fund in 1977, but just 4.38 percent in 2004.

Ohio business groups had a mixed reaction to the gross receipts tax and other parts of the roundtable's proposal.

The Ohio Manufacturers' Association has called for replacing current Ohio business taxes with a tax that would be broad-based, at a low rate and equitable across all sectors of the economy, said Randy Leffler, the group's communications director.

While the gross receipts tax would appear to fit this definition, the manufacturers have not taken a specific position, he said.

John C. Mahaney Jr., president of the Ohio Council of Retail Merchants, called the gross receipts tax proposal frightening for the retail sector.

"We have lots of receipts and we're light on profits," he said.

Mahaney said he was not enthusiastic about overhauling the tax system.

"Tax reform sounds so good. I don't know if our taxes are so far out of whack or not," he said.

Daniel Navin, managing director of legislative affairs for the Ohio Chamber of Commerce, the state's largest business group with 4,500 members, said, "It's a positive thing that the governor and legislature are focusing on tax reform as one way to improve this economy and create more jobs." He said, however, the chamber has concerns about a gross receipts tax.

He said such a tax could have a "pyramiding effect." If an Ohio company buys something from a supplier in Ohio, that supplier would have to pay a tax on the sale. The company buying the product then would have to pay the gross receipts tax when it sold the product to a consumer in Ohio.

The Ohio company might look for an out-of-state supply network to avoid suppliers that had increased their prices to help cover the gross receipts tax, Navin said.

He said the chamber has two major problems with current business taxes — the tangible personal property tax and what he called the "high marginal personal income tax rates."

"They are the biggest inhibitors of keeping people here as well as encouraging new capital investment and jobs in Ohio," Navin said.

Zach Schiller, director of Policy Matters Ohio, a Cleveland-based research institute, said he's concerned that too much emphasis is being placed on using an overhaul of the tax code to promote economic development.

"The idea that this package of measures would lead to some big new round of economic development is a mirage," Schiller said.

He said Ohioans need to decide if they want to make the necessary investments in people and public infrastructure that are needed for the state to succeed.

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