



To: Conference Committee Members  
From: Amy Hanauer, Executive Director, Policy Matters Ohio  
Date: June 24, 2019  
Re: House Bill 166, State Operating Budget

As you finalize the state budget for 2020-21, we ask you to consider the following policy changes.

First, we urge you to accept the House provisions in House Bill 166 to lower the \$250,000 Business Income Deduction (also known as the LLC Loophole) to \$100,000, while also eliminating a special 3% rate paid on business income above that amount, as the Senate also provided. This tax break has not boosted the Ohio economy. There has been no increase in first-time hiring by new businesses and the growth of passthrough entities has trailed the national average. Overall Ohio job gains have lagged behind the nation's. This tax break has further slanted our tax system in favor of the wealthiest. Thus, we recommend cutting it back to generate needed revenue and make our tax system more equitable.

Second, we urge you to make the income tax fairer by using some of the revenues saved from reducing the LLC Loophole to add a 10% refundable Earned Income Tax Credit (EITC) to the existing state EITC. The lowest-income Ohioans pay almost twice the share of their income in state and local taxes as the richest Ohioans but most of them do not benefit from the rate and bracket cuts in the budget bills. Instead of these cuts, we urge that you add a refundable EITC. It would target assistance to those who need it most and provide more to the poorest working Ohioans. The impact of the rate and bracket cuts on Ohioans of middle income are so small that they will be barely noticeable.

Third, we endorse the House-approved provisions to end the sales-tax breaks for investment coins and timeshares in private jets, repeal the movie tax credit and improve taxation of hotel intermediaries. We encourage you to use revenues saved by these measures and closing the LLC Loophole on additional, needed investments at a scale that can make a difference in the lives of Ohio's children and families. In addition to the 10% refundable EITC, other obvious uses would include supporting a new K-12 school funding formula and raising the level of initial eligibility for childcare assistance to 150% of the federal poverty level, as promised in Governor DeWine's campaign. These tax changes could also fund other needs including:

- Grants for lead abatement in targeted urban and rural neighborhoods throughout the state;
- Outreach and education about the census in hard-to-reach communities;
- Support for the full cost of one investigator for Adult Protective Services in each county, and
- Additional investments to reduce infant mortality

There are new investments in House Bill 166, which we applaud. However, not all needs have been addressed and not all investments have been at a scale that can make a difference.

Thank you for considering our recommendations.

CC: Senate President Larry Obhof, Senate Minority Leader Kenny Yuko, Speaker of the House Larry Householder, House Minority Leader Emilia Sykes, Dan McCarthy, Director of Legislative Affairs, Office of Governor Mike DeWine

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