Tax and Budget

Testimony on Senate Bill 246 before the Senate Ways & Means Committee

Zach Schiller

Good morning, Chair Blessing, Ranking Member Williams and members of the committee. My name is Zach Schiller and I am research director of Policy Matters Ohio, a nonprofit, nonpartisan research institute with the mission of creating a more vibrant, equitable, sustainable and inclusive Ohio. Senate Bill 246 is ill-timed and should be set aside. Here's why.

The Ohio Society of CPAs testified earlier that there would be "no revenue loss to the state" from the bill. The S Corporation Association said, "The bill is intended to be revenue neutral…" Yet in its fiscal note on the bill, the Legislative Service Commission estimates state General Revenue Fund losses of $900,000 in Fiscal Year 2022, $74.8 million in Fiscal Year 2023, and $77.5 million in Fiscal Year 2024, along with losses to the Local Government and Public Library Funds.[1] The LSC says it relied on the Ohio Department of Taxation for its analysis.

The Ohio Department of Taxation spells out these same numbers in its analysis.[2] The revenue loss is driven by the 3% rate that passthrough entities would pay under the bill starting in Tax Year 2023, compared to the 3.99% filed on current returns. I would recommend that you invite the Taxation Department to appear before the committee, share its analysis and answer questions. A bill that official estimates say will cost the state tens of millions of dollars a year deserves more scrutiny, at a minimum.

That is the key reason why the committee should not approve this bill now. There are at least two others. First, it's well known that the state and local tax (SALT) deduction cap largely affected the most affluent individuals. Groups from across the political spectrum have pointed this out; for instance, the Tax Foundation estimated that repealing the cap would increase the after-tax income of the top 1% by about 2.8% while "the bottom 80%

[1] Cummins, Philip A., Senior Economist, Ohio Legislative Service Commission, Fiscal Note & Local Impact Statement, S.B. 246, 134th General Assembly, As Introduced, p. 2 at https://www.legislature.ohio.gov/download?key=17651&format=pdf

[2] Ernest C. Massie, Administrator, Tax Analysis Division and Kenneth Frey, Chief Forecaster, Tax Analysis Division, Ohio Department of Taxation, to Gregory Siegfried, Deputy Tax Commissioner, Re: SB246, 134th G.A.; Sen. Michael Rulli (R-33): LEVY A TAX ON PASS-THROUGH ENTITIES' INCOME APPORTIONED TO OHIO AND AUTHORIZE A REFUNDABLE CREDIT FOR AN OWNER FOR SUCH TAXES PAID, Oct. 6, 2021

would see minimal benefit."[3] It is not in the public interest to further reinforce inequality through the tax system. Second, as you know, the U.S. Congress is currently considering legislation that is likely to affect the state and local tax deduction. If it restores all or part of the deduction the rationale for this bill may well disappear. For all these reasons, you should defer action. Thank you very much for the opportunity to testify.

[3] Watson, Garrett, "Relaxing State and Local Tax Deduction Cap Would Make Tax Code Less Progressive," Tax Foundation, May 3, 2021