Dayton Daily News
www.daytondailynews.com

Report criticizes Taft's tax proposal

It would add to state's fiscal burden, Policy Matters says

By Mandy Zatynski

Dayton Daily News

Gov. Bob Taft's remedy for a stagnant economy will create more economic woes, according to a report released Monday by Policy Matters Ohio.

The state budget pending before the Ohio Senate would phase out the corporate franchise tax and the tangible personal property tax businesses pay on equipment, machinery, inventory, furniture and fixtures. It would create a broad-based, low-rate commercial activity tax on business gross receipts from sales in Ohio.

The changes, phased in over five years, are intended to stimulate manufacturing and make the state's tax structure more equitable.

But companies would pay the commercial activity tax whether or not they showed a profit and Policy Matters Ohio, a nonpartisan research institute, says Ohio's economy needs only a stronger, redefined corporate franchise tax, which is based on businesses' profits or net worth, whichever is greater.

Taxing profits is "a bedrock principle of fair taxation," according to the report.

The report estimates that by 2010, the commercial activity tax will generate $1.55 billion for the state, while $2.15 billion will be eliminated by the tax changes creating a $600 million gap.

This includes money the state would pay to local communities and schools to make up for revenue lost from the tangible personal property tax.

"It's fiscally irresponsible. Most of this gap doesn't materialize until beyond this biennium," said Zach Schiller, author of the report and research director of the Cleveland-based institute. "Some future legislature will have to deal with the mess that they've created."

Mark Rickel, Taft's spokesman, isn't convinced.

"The governor is proposing a commercial activity tax that, with its low rate, brings an equitable approach to business taxes," he said.

He noted that a report conducted for the state showed 47,348 jobs would be created by 2010 as a result of the tax changes.

"By bringing equity into the tax rates, all companies will be able to benefit," Rickel said.

Senate President Bill Harris, R-Ashland, also has favored the tax phase-outs and creation of the commercial activity tax.

The Senate today will release its version of the budget, which the Finance Committee is slated to vote on next Tuesday. Action by the whole Senate is expected June 1.

Indiana got rid of its commercial activity tax in 2002, after officials felt it was discouraging new business start-ups and firms from locating in their state.

The Ohio Chamber of Commerce, which supports "80 percent" of Taft's tax package, fears the same, said Daniel J. Navin, director of the chamber's legislative affairs.

"There are demonstrable inequities and new burdens created for particular kinds of industries that we have argued could be addressed by keeping the corporate franchise tax, but to reform it," he said.

Taft has described the current corporate tax as doubly flawed: high rates discourage companies from locating here, while loopholes allow companies to avoid paying part of the tax.

Policy Matters Ohio proposes combined reporting, or a single tax filing for all of a company's related operations. Currently, businesses with multistate operations can file separately and shift reported income, to avoid higher taxes in one state, Schiller said.

"It's an entirely legal method of tax avoidance," he said.

Policy Matters also said the state should consider making "passthrough entities" subject to the corporate franchise tax.

These are businesses whose proprietors pay individual income taxes on their business earnings.

Policy Matters also recommends eliminating the franchise tax's cap on net worth payments, which it says discriminates against small businesses and costs the state close to $100 million a year; eliminating or limiting credits that weaken the tax, and adding a provision that would tax sales made by Ohio producers in other states where they are not subjected to tax.