Policy Matters Ohio

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Testimony of Zach Schiller, Research Director, Policy Matters Ohio
before the House Ways & Means Committee on HB 134
Prepared for delivery on May 11, 2011

Chairman Beck, Ranking Member Letson and members of the Ways & Means Committee, thank you for the opportunity to testify today. Policy Matters Ohio is a nonprofit, nonpartisan organization conducting research on issues facing working families in Ohio.

We have testified previously in opposition to another bill, House Bill 98, which is similar to House Bill 134 in that it would reduce income-tax rates on unearned income. We believe many of the same arguments apply to HB 134. The capital-gains tax cut will overwhelmingly flow to a small number of wealthy Ohioans, while providing little or no benefit to the bulk of Ohio residents. Meanwhile, the bill would cost badly needed tax revenue, complicate the tax system and add to the need for tax enforcement.

The basic theory behind this bill is flawed. At the federal level, capital gains are taxed at 15 percent compared to the top rate of 35 percent for regular income. There is little connection between these lower capital gains taxes and economic growth at the national level. Given this, one cannot expect that the reduction in this bill – from a top rate of 5.925 percent to 2.5 percent, or a far smaller difference than what exists at the federal level – will generate meaningful economic gains.

At the same time, there may be no relationship between many of the "Ohio-based reinvestments" described in the bill and creating more jobs for Ohioans. Many companies are incorporated in Ohio that have the vast bulk of their business elsewhere; why should investing in them qualify for a tax break, when they could actually be reducing Ohio jobs? Under this bill, an investor who retained their investment in NCR years after they left Ohio would be rewarded with a lower tax bill. The same point is true of passthrough entities with a majority of ownership from persons subject to the Ohio income tax.

No doubt numerous investors sell non-Ohio investments and reinvest their money in Ohio every day. Under this bill, we would reward them for what they would be doing anyway – at a real cost to the state.

In addition, the difficulties in administering this bill would be substantial. It would require keeping track of "Ohio-based reinvestments." These must be kept for three years, or there are penalties and interest charges – but not if they purchase another Ohio-based reinvestment the same year. Would the taxation department, which currently is reducing staff for budgetary reasons, have capacity to do the additional auditing necessary? And if not, will the resources be provided to hire additional staff to properly enforce the law? This would also include lawyers to handle cases over what constitutes an "Ohio-based reinvestment."

The Legislative Service Commission roughly estimated this bill to cost "tens of millions of dollars or possibly more" in personal income-tax revenue. It is ill-advised to dig the state's budget hole deeper.

For all these reasons, we urge you to oppose this bill.