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HB 601 would leave loopholes in municipal income tax, analysis finds

New round of cuts could clobber Ohio communities

Rather than cracking down on tax avoidance, a major rewrite of the state law governing Ohio municipal income tax being considered in Columbus ignores or even invites it, according to a brief released today by Policy Matters Ohio.

House Bill 601, introduced in the last session of the General Assembly, was aimed at increasing the uniformity of municipal income taxes across the state. Unfortunately, the legislation proposed so far leaves loopholes in the current law untouched and creates new ones. It also could cost cities significant amounts of money.

“A major effort to overhaul Ohio’s municipal income tax should reduce tax avoidance, guarantee a broad tax base, and ensure that those most able to pay are in fact doing so,” said Zach Schiller, Policy Matters Ohio research director and author of the brief. “When this issue is taken up in the next General Assembly, legislators should address those objectives.”

HB 601 ignores existing tax loopholes, such as one that allows firms to use passive investment companies to reduce their reported income, costing municipalities tens of millions of dollars a year. It would create a new loophole by preventing municipalities from taxing the shipment of products to other cities where they don’t have sales agents; to cite just one example, this would save \$385,000 for one Columbus company. The bill would also preserve special carve-outs that allow wealthy executives in Cincinnati and Findlay to avoid taxation on stock-option income and deferred compensation, and would adopt a narrow definition of who is an Ohio resident, allowing affluent residents who spend significant time out of state to avoid municipal tax.

Though the sponsors of HB 601 said they attempted to achieve “substantial revenue neutrality,” the Legislative Service Commission concluded that revenue losses from the bill could be significant. Cities and villages have already been hammered by cuts in state aid, with hundreds of millions of dollars more each year to be lost because of the repeal of the estate tax.

“The General Assembly should ensure that municipalities aren’t clobbered again,” said Schiller. “It should close current loopholes that allow tax avoidance and prevent the creation of new ones.”

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*Policy Matters Ohio is a nonprofit, nonpartisan state policy research institute
with offices in Cleveland and Columbus.*