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Senate approves House Bill 5, retaining loopholes

Bill to overhaul municipal income tax now goes back to the House

The Ohio Senate yesterday approved House Bill 5, an overhaul of the state's law on municipal income tax, despite opposition from cities and villages already affected by previous cuts in state aid.

"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 Policy Matters Ohio Research Director Zach Schiller in testimony on the bill earlier this week (see link). "Unfortunately, House Bill 5 does not accomplish those things."

Policy Matters noted in written testimony that the bill ignored existing loopholes, including one that allows companies to avoid tens of millions of dollars in taxes annually by shifting income to passive investment companies.

Though House Bill 5 is framed as an effort to make municipal income taxes more uniform, Schiller said, "it forgoes an opportunity to do so by preserving the carve-outs affluent residents of Cincinnati and Findlay enjoy on income from stock options." An amendment was rejected that would have eliminated that provision. Thus, the bill also allows additional cities to adopt the carve-out over the next year.

Another provision that many cities and Policy Matters criticized, which would have created a new loophole, was taken out of the bill. It would have reduced municipal revenue by prohibiting cities from taxing the profit a company makes when it ships a product or service outside the city where it is located to another place where it does not regularly solicit sales.

However, the bill leaves some other loopholes untouched, while creating new ones. It also calls for the establishment of a committee to study the feasibility of requiring cities to report the amount of revenue received from residents and non-residents. "Anyone who believes in regional cooperation will see that such a requirement is nonproductive," Schiller said, reacting to the new provision. "The House should reject this provision, in particular. While all of the implications of the newest version of the bill are not yet clear, the General Assembly should not approve the bill in its current form."

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