



Municipal Objections to State Centralized Collection of Municipal Income Taxes

- Municipal tax professionals spend a significant amount of time auditing returns and assisting taxpayers. Because the plan is to take the municipal net profit tax out of ORC 718 and *create a new revised code section 5718*, the state will be expanding the jurisdiction and influence of the Department of Taxation over more local taxation matters. The state will simply not be able to ensure the level of scrutiny, review and overall accuracy of returns filed through the state inherent in self-collection.
 - 87% of municipal business filers have 3 or fewer filing requirements in different municipalities. All municipal net profit filers would be *mandated* to file their local taxes through the state.
 - 70% of municipal taxpayers file in cities and villages that are *self-collectors* and do not use a third-party administrator.
 - Self-collecting municipalities estimate the cost to administer the net profit component (or 14% of the total revenue collected) of their municipal income tax at .02%, not 2.5% as reflected by the state. The projected cost of state collection at 1% of revenue would be *higher* than the cost to municipalities for administering their own local tax.
 - *“Power Grab”* Municipalities would be denied “standing” for an appeal and would have no ability to challenge decisions made by the state and the expanded authorities that would be bestowed upon the current and future State Tax Commissioners, affecting the administration, collection and redistribution of municipal tax revenues.
 - Because the state will receive and administer municipal filings, Ohio business filers and tax preparers will *no longer receive* the benefit of *free, easily accessible local assistance* from municipal tax administrators who currently provide a wide range of assistance to filers, including providing answers to technical issues to resolve filing challenges, verify the accuracy of calculations and alerting filers to incomplete submissions that may unnecessarily frustrate the customer. This level of service will not be provided by the state of Ohio.
- Centralized collection is one more instance where the State would significantly *erode local control* and challenge the tenants of Article XVIII of the Ohio Constitution.
 - The Ohio Supreme Court has affirmed in *Angell, v. Toledo & City of Springfield v. All American Food Specialists, Inc.* that municipalities are granted the ability

to administer and collect a municipal income tax through the Home Rule authorities granted municipalities in Article XVIII.

- In addition to the the constitutional challenges, the loss of local control is particularly alarming to Ohio municipal leaders because it precludes local officials from having the ability to be *good stewards* of their communities' taxpayer's revenues.
- If the state were to experience another economic recession, there is nothing to prevent policy *changes in distribution* of municipal dollars back to the rightful municipalities, in order to protect the financial solvency of the state of Ohio.
- At this point, the revenue from the municipal Net Profit tax would become another Local Government Fund (LGF) out of the control of the *dependent municipalities*.
- Municipalities collect and deposit revenue received immediately, often daily, providing *immediate access to critical finances* in order to meet expenditures on a day-to-day basis.
 - Proposed quarterly distributions of state collected municipal revenues will interrupt and impede the ability of cities and villages to meet the daily challenges of typical financial obligations.
 - The lack of immediate access to municipal revenue will mean communities across the state may be forced to turn to third-party financial institutions to meet immediate financial obligations, exposing taxpayer dollars to commercial high interest rates and diminished rates of return.
- The *Ohio Business Gateway* (OBG) currently serves as *a central portal* for businesses can file their Net Profit tax obligations to Ohio cities and Villages. The system allows municipalities to *verify* the accuracy of business filings while allowing Ohio businesses the central, state supported system to manage local tax obligations.
 - Currently, OBG is plagued with limited capacity and software shortcomings, periodically *frustrating some business filers* who attempt to complete filing obligations and has been underfunded for years.
 - Ohio's Lieutenant Governor is currently overseeing the project to create "OBG 3.0", a *rebuilt system* to address current capacity limitations and software shortcomings that have frustrated business and municipal users, alike.
 - When the rebuild of the system is complete, OBG should be able to properly accept required attachments, interface with preparer's software and administer other business filing requirements that the program was originally *envisioned to perform*.
 - This investment in OBG would *nullify* the need for the state to expand the size and scope of state government while confiscating 14% or \$600 million in municipal revenues and create a scheme to redistribute communities' revenue back to them in an accurate fashion.

- Ohio municipalities enjoy some of the ***highest bond ratings*** in the country and those bond ratings are highly dependent upon the revenues generated by the municipal income taxes. If the financial integrity of cities and villages are challenged by a weakened ability to generate a stable and consistent revenue stream, then bond ratings will suffer and taxpayer dollars will be compromised.
- The state would have control of over \$600 million of municipal revenue, generating interest off of local government revenue generations while ***denying*** municipalities the ***ability to leverage*** the benefits of their communities' assets. There is no language in the legislation that is contrary to this point.
- Other political subdivisions that receive revenue back from the state through a central collection mechanism such as municipalities that receive revenue from the state by utilities in their limits, sales tax distributions to counties, school districts that receive revenue through the school district income tax, etc., have ***experienced uncertainty regarding the amounts of revenue returning*** to their communities and are provided no recourse to challenge or have the amounts verified as being accurate