



EnviroControl Systems Inc.

Heating and Cooling

Proponent Testimony

House Bill 5—Municipal Tax Reform

Senate Ways and Means Committee

Thursday, November 13, 2014

Lisa E. Crosley, President

Mr. Chairman, and members of the Ohio Senate Ways and Means Committee:

My name is Lisa Crosley. I am owner and President of EnviroControl Systems, Inc. a Heating/Cooling and Building Performance company. We design, install, and service, residential and commercial heating and cooling, building performance, and energy management systems. We are a design-build firm, specializing in value engineering. Our customers include homeowners, retail stores, medical facilities, restaurants, manufacturers, as well as churches, schools, general contractors in the building trade, and non-profit organizations including public projects.

In 2011, EnviroControl Systems earned National Women's Business Enterprise status. We are a family business—two generations of the Crosley family work alongside our employees. Joining me today is Jessica Crosley who represents the second generation of our family's business and the dream of many

entrepreneurs—to create a business which serves its community with integrity while building a legacy for one’s family.

EnviroControl Systems is an active member of the KetteringMoraineOakwood Chamber of Commerce, the Dayton Chamber of Commerce, and are members of NFIB/Ohio. We are proud to maintain an A+ Better Business Bureau rating.

I speak in support of House Bill 5, legislation which brings more uniformity and fairness to Ohio’s municipal tax system. I will share with you the impact that the current municipal tax system has on not just my business, but in the lives of my employees, and, ultimately, to the economic well-being of our entire State.

Even before the recent Great Recession, Ohio was struggling. Significant portions of Ohio were classified as the *Rust Belt*. Today’s need for Ohio to make itself attractive to business investment is critical. Our current legislature, along with Governor Kasich, have made economic recovery in Ohio a priority. However, doing business in Ohio continues to be impeded by the weight of one of the nation’s most complicated systems of municipal taxation. Most states no longer have a municipal income tax system, let alone an antiquated system like we face in Ohio. It pains me to see Ohio is among the last to deal with the cost of compliance to its Neanderthal municipal tax codes. I want Ohio to be the leader in creating jobs for decades to come. According to the National Taxpayers Union, our municipal tax system in Ohio is an economic **disincentive** to either start, to grow, or to bring a business to our state. It is time to make Ohio competitive with other states.

My business is located in Dayton. We employ a staff of 15. We have the privilege of serving customers throughout our region. In 2012, our mobile work force served customers in 57 **different** communities to be exact. In 2013, my business worked in **59 local jurisdictions**. **It is 59 locals again this year. At the end of both the 2012 and 2013 fiscal year, my business filed 39 municipal tax returns.**

The purpose of HB 5 is not to reduce the tax burden on business, or to pick the pocket of local government. To the contrary, I believe the reforms of HB5 will encourage investment, growth, and job creation for the good of all. HB 5 aims to

reduce compliance costs through uniformity and common sense rules. This is a noble goal because the cost of compliance is often greater than the tax income generated.

Let's use my business as an example. At the end of First Quarter, 2013, my payroll tax pay service paid quarterly tax to 28 municipalities. 17 required tax payments of less than 10 dollars. Six required payments between \$11 and \$25.00; 3 between \$26 and \$99.00 and ONLY TWO required payments of *\$100.00 or more*. One city received \$1.80, another 82 cents, another 46 cents, and, last but not least, one city received a whopping 22 cents! In one instance, it was necessary to file a return to inform the city I hadn't worked there! The cost of processing these tiny payments to local governments far exceeds the benefit.

It should be remembered that today's municipal tax system costs not just the business in compliance costs, but the local municipality as well. What does it cost the local municipality to receive 22, 27, 46 cent payments? Let's create a pro-growth system that grows the tax base and revenues, rather than wasteful compliance costs for both business and municipal authorities.

People just shake their heads when I tell the story of the municipality to whom I once owed 27 cents. I called and asked if I could bring a quarter and two pennies and drop it off. I was informed in no uncertain terms that all payments must be received by check, and through US mail. The stamp cost more than the tax I owed! On another occasion I worked in a jurisdiction to the north of my standard service area. We worked there one time, for about 2 hours. The next year I received a letter from that jurisdiction that I was being audited. It took several phone calls and letters from my CPA—time and service for which I paid—to straighten out the mess. It is this kind of lunacy which small businesses and the citizens of Ohio need you to stop.

Not only do businesses, but hard-working Ohioans need relief from our monstrous municipal tax system. Here you see one of my service technicians on the day I delivered his 2012 W2s to him. My employees find it nearly, if not, impossible to prepare their own resident tax returns. One employee who tried to use tax preparation software was told by its tech support "Mister, you better get

a CPA.” Again, it’s time to stop this madness. Another employee reported that it was necessary for him to spend \$600 in tax preparation fees, to pay a total tax obligation of \$958.00 dollars.

This flow chart depicts how my service tech goes from climbing into his truck on January 2 to having his picture taken with 37 W2s twelve months later.

Technicians report time and location of job assignments on a spread sheet on their I Pad. This raw data is sent to a payroll staffer who totals the data for each employee per city per job per day. I, then, verify the data, attempting to be certain that the mailing addresses indicate the proper tax receiving district. This generally takes me 6 hours a month. Data is then transferred to the payroll processor.

My processor figures the employee’s worksite tax liability based on the requirements of 600 or more tax districts in Ohio, and withholding is listed on the employee check stub. At the end of the year, the employee receives W2s for all jurisdictions and must then navigate our dinosaur of a system.

Compliance cost falls disproportionately on service companies with mobile workforces and their employees. It is the hard-working Ohioan—often those who work out of a truck, moving from place to place in the cold of winter and the heat of summer—cleaning drains, delivering flowers, removing snow, charging air-conditioners, installing roofs, cleaning houses-- who bear the brunt of compliance both through time spent in record-keeping, and the additional cost of tax preparation. I think HB5 will help the individual Ohio tax payer as much as it will assist business in cutting the cost of compliance.

Finally, this flow chart outlines what my business faces as it seeks to comply with our convoluted system. Payment for services rendered must be tracked in two ways. First, I track income to my bottom line. However, every penny of revenue which we book is recorded a second time in an Excel spread sheet posting the revenue to the jurisdiction in which the work was done. We verify the accuracy of this ledger not less than twice a month, often, weekly, sometimes daily. After closing the books at the end of the year, the total revenue is calculated by city and the raw data is sent to our CPA. Our CPA calculates any tax due and prepares

a return. Each return costs my company about \$150.000. This cost per return was verified by Ohio State Treasurer, Josh Mandel, in an interview he gave to the Columbus Dispatch on April 28, 2013. I then sign the returns, and cut checks for any remaining tax balance. This year it cost my company \$85.00 in postage just to mail 39 returns, none of which had tax due.

The expense of compliance is a special burden on small companies who are the engine of Ohio's economy, who create the bulk of Ohio jobs. Small business cannot afford to hire extra staff to handle tax compliance. Like me, somebody *in* the business generally carries the burden for this complex system of over 600 different sets of rules. It is a daunting task, and I can assure you many businesses I know don't even try to comply with it, which makes the burden that much greater on those of us who do. Ohio is not well served when it clings to a system which discourages voluntary compliance.

As the debate on HB5 has progressed, a few have suggested that businesses such as mine might do better to restrict or refuse operation in municipalities where little or no tax liability may be generated. As the owner of a business based upon a mobile work force, I reject that solution as unrealistic. First, based upon my 2012 revenue by cities, \$296, 815 or 16% of revenue was earned in jurisdictions which generated tax liability of less than \$100.00. More importantly, that \$296, 815 in revenue supported \$42,260 in wages. Based upon wages reported by W-2, at least one job would have been completely eliminated had I capriciously decided to refuse work in those jurisdictions. As a business owner, I understand that the municipal tax code directly influences job creation. I respectfully reject the notion that the solution to Ohio's municipal tax dilemma is for businesses to stop working in targeted jurisdictions based upon tax liability alone.

Further, companies such as mine are marked by strong service/sales interdependence. There is no way to predict beforehand the amount of revenue an opportunity may generate. A mobile workforce may earn little or no income in a specific community one year, only to earn significant revenue in another. It is unrealistic to eliminate potential income streams based on tax liability alone.

Moreover, I am concerned about the unintended consequence when businesses are encouraged to control the cost of tax compliance by refusing to work in certain communities. Might this practice target marginal communities, and unfairly deny certain demographics access to quality service? Rural areas? Lower socio-economic communities? As a business owner, I refuse to allow an antiquated tax code to determine the quality of service I extend to all customers.

Another opponent argument has suggested that the NOL carried forward would encourage businesses to report activity in such a way as to show a loss each year. In my opinion, this argument demonstrates a lack of understanding of how business must operate. The profitability of my business is critical to many facets of my successful operation: bank loans and lines of credit, favorable vendor terms, total business valuation, succession planning—to name just a few. Profitability is the lifeblood of a business and a business which posts losses year in and year out weakens important functions of business success. It is not a strategy a successful business wishes to embrace.

As you have listened, you have heard me reference facts from different years—2012—2013-2014. What makes that important? The answer is simple. The problems HB5 addresses are not a one-time, pain in the neck, for small business. Rather, it is a tiresome, costly system which we face year in and year out, day in and day out, pay period after pay period. The costs accrue, and accrue, and accrue—with no relief in sight unless the Ohio Senate makes common sense reforms to Ohio's municipal tax system.

I cannot stress too strongly that HB5 will not reduce my tax burden. It is not a tax cut. In fact, in some cases it may increase my tax due. Rather, HB5 has the potential to **reduce the cost of compliance**. We supporters of HB5 are not unprincipled business people trying to avoid our tax responsibility. A business which creates page after page of revenue breakdown as my company does is not trying to get out of paying taxes. I came today to tell my story, because I want a system that makes sense as we work to comply.

In conclusion, HB 5 is the start of bringing a simpler, more manageable tax system to the workers of Ohio, to the businesses who employ them, and to the local

jurisdictions. It will make Ohio more attractive for business development and job creation.

I will answer any questions to the extent of my knowledge and ability.