



State Representative
Ron Young
Sponsor Testimony for HB 343
House Economic and Workforce Development Committee
October 7, 2015

Madam Chair Baker, Vice Chair Romanchuk, Ranking Member Smith, Members of the Economic and Workforce development committee, thank you for giving me the opportunity to provide sponsor testimony to you today. House Bill 343 will repeal the sales tax on employment services. This tax first became effective in 1993. The state was experiencing an economic downturn and in need of new revenue. At this time, I was not involved in politics. I was the operator of Technical Employment Services (TES), a professional staffing firm. Needless to say, my clients did not take kindly to paying an additional 6% to 8% on every invoice. On a typical \$20,000 fee the extra charges ranged from \$1,200 to \$1,600. There was a noticeable downturn in business. As the cost of hiring increased the number of hires decreased.

I made a number of calls to Columbus to determine why our industry was targeted. After all other services were not and still are not taxed today. Services such as Accountants and Lawyers do not pay the sales tax. Why are Employment Services taxed? After a number of calls I had exasperated several prominent people in Columbus. Finally, in an effort to relieve himself of my company one of them honestly shared his feelings on the subject. He said simply, "Ron there was really no rationale for taxing the employment industry. The state needed the money and it took the money. If you don't want this sort of thing to happen again get a lobbyist." And he hung up on me. This experience played a significant role in my running for state office in 1996.

My company, TES, was a permanent placement firm. We recruited engineers to become regular employees of our clients. Temporary placement firms assign their employees to fill specific positions at client companies on a temporary basis. Professional Employer Organizations (PEO) take responsibility for whole work functions with client companies. In Ohio all of these companies pay the sales tax on the full invoice.

A PEO offers client companies some interesting options. For example, a PEO could be tasked to take responsibility for a client's warehouse. In this scenario the PEO might provide the floor personnel, supervisors, managers, Plant Manager, Accounting personnel and whatever other personnel might be required. All personnel would be employees of the PEO. This type of "workforce flexibility" is very attractive to companies in a number of settings. However, in Ohio this type of arrangement has become problematic.

Consider the problem from a client's perspective. Imagine the client needs to establish a warehouse/distribution center somewhere in our region. After initially targeting Ohio, they end up going to one of our border states. Why? Well, one of the primary reasons is the employment sales tax. Michigan, Indiana, Kentucky and West Virginia do not charge the tax. The 6% to 8% additional payments Ohio charges might not sound like a lot, but when you consider that for every million in employee wages and PEO fees, the company's costs increase by \$60,000 to \$80,000. Of course, the tax also presents similar problems for all types of employment services and puts Ohio at a tremendous disadvantage. According to the Federation of Tax Administrators there are only 9 states that tax employment services. However, 4 of them (HI, NM, SD, WA) tax them under a gross receipt tax rather than a sales tax.

The other 5 states (OH, CT, IA, PA, WV) do tax it as part of their sales tax however Ohio is the only one that taxes both the employment services fee and the employee wages.

The employment service tax cost Ohio jobs, damages our economic growth and gives the impression that Ohio does not understand job creation in 21st Century America. It punishes job creators, deters companies from coming to Ohio and forces others to leave our state. In fact this tax calls into the question, our chairwoman's famous axiom, "It's all about jobs" and the less well known but non-the-less poignant adage "Ohio means Jobs." If Ohio really means jobs then why do we punish our job creators?

Thank you again for giving me the opportunity to bring to you this important piece of legislation. I would be happy to answer any questions you might have.