

**TESTIMONY OF JAMES H. LAGOS, CAPITALIST AND SMALL BUSINESS ADVOCATE
BEFORE THE SENATE FINANCE COMMITTEE, OHIO GENERAL ASSEMBLY**

MAY 23, 2019

Mr. Chairman, Senator Dolan, Mr. Vice Chairman, Senator Burke, Mr. Ranking Minority Member, Senator Sykes, Senators of the Finance Committee and distinguished members of their staffs.

It is a privilege and pleasure for me to be here. Thank you for the opportunity. I have been a small business advocate for the past several decades. I have had more terms on the Board of the Chamber of Greater Springfield than anyone else in its history. I have held each office at our local chamber at least twice. I am the long time Chairman of our Small Business Legislative Committee. I served as Chairman of the Ohio Small Business Council which is now a division of the Ohio Chamber of Commerce. I served for many years on the board and am past Chairman of National Small Business United which is now known as the National Small Business Association. I was the elected Chairman of the Ohio Delegation to the White House Conference on Small Business in 1985 and 1986 which was called by President Reagan. I was also a delegate to the White House Conference on Small Business called by President Clinton. In 1991 the U.S. Small Business Administration created a new national award for Small Business Advocate of the Year. I was selected as the first recipient. I am telling you all of this for the sole purpose of demonstrating that I do have my hand on the pulse of the small business community and know in general what they are thinking.

The Ohio small business community is generally unaware of proposed reductions of the small business deduction from \$250,000.00 to \$100,000.00 and the elimination of the 3% cap above the small business deduction of the Ohio income tax. Quite frankly most small businesses do not follow the goings on of the Ohio General Assembly. They did not know that the small business deduction was implemented several years ago until they received a pleasant surprise from their accountants when they were filing their income taxes. They will not know that their taxes are going up until they receive a very unpleasant surprise from their accountants when they file their income taxes by April 15, 2020. They will ask what happened and they will be told universally by their accountants that it was the fault of the Ohio General Assembly. Most small businesses do not talk to their accountants, except once a year when it is time to do their taxes. They are usually happy or very sad at that time. They will be particularly sad when they file their income taxes next year when they have to drain their checking accounts unexpectedly for a tax increase retroactive to January 1, 2019. The reaction you have had so far from the small business community to the proposed increases in the taxes on small businesses is very mild compared to the reaction you will have this time next year. This is just the reality of the situation.

I have been a practicing attorney in the state of Ohio for the past 46 years. I have represented many, many small businesses. I own three Ohio S-Corporations myself as the President, Janitor and Sole Shareholder. My wife Nike and I have borrowed millions of dollars from banks in order to rehabilitate old buildings in Downtown Springfield. We have

also previously owned a construction company and part of a beer and wine wholesaling company. I can tell you without any hesitation whatsoever and based on my own personal experience and my knowledge of the small business community of Ohio the following:

**“EVERY DOLLAR THAT AN OHIO SMALL BUSINESS HAS IS ALREADY
COMMITTED.”**

If I, or any other small businessperson, has \$10,000.00 in the bank then that \$10,000.00 is already spoken for. This is in the way of paying for inventory, materials, equipment, payroll or you name it. For example, my wife Nike and I have spent millions of dollars since 1993 restoring the Bushnell Building which is on the National Historic Register in Downtown Springfield. We have been able to achieve Platinum LEED status from the U.S. Green Building Council three years ago for this building. There are only 10 buildings in the United States of America that are both on the National Historic Register and Platinum LEED Certified. The Bushnell Building is by far the oldest and largest of those buildings in the entire country. Today as we speak, we are remodeling offices for use by a local architectural firm on the 2nd floor of the building. We are also creating space including a large outside covered deck for a restaurant which will feature fine dining and a fine wine bar. I can assure you that every single dime that I make in my law practice and every single nickel that we make in rent is going into these projects. There is nothing held back. In addition to bank financing over the years, we like many other small businesses have had to rely on our credit cards to pay for bills as they come in.

At the end of each year, under the present law we aggregate the income if any, that we had from S-Corporations and take advantage one time of the small business deduction. I can represent to you for a fact that if we have one extra dollar going to taxation that is one dollar, we cannot spend on something going into our businesses. We do not belong to a country club, we do not have a yacht, we do not even own golf clubs. In addition to our own employees we have over a dozen small business contractors that work on our buildings. These are all located in Springfield or the immediate vicinity. These include, architects, various types of engineers, surveyors, electricians, HVAC companies, plumbers, painters, window installers, door installers, the installers of back up generators, crane companies to lift mechanical equipment onto our roofs, roofers, tuck-pointers, concrete contractors, masons, steel erectors, carpenters, carpet and ceramic tile installers, sign makers and every other contractor or sub-contractor you can think of. We have used all of these people during the past 12 months. If we have one dollar less to spend on these people than that hurts their small business. It also hurts their employees and their own suppliers. It also means that our contractors and sub-contractors are paying less income taxes.

This is a very bad time to raise taxes on small businesses in Ohio. Recent Federal legislation capped the deduction for state and local taxes at \$10,000.00 per taxpayer. It doesn't take much time for a small business taxes to pass the \$10,000.00 cap for SALT taxes. If a small business was paying federal income taxes at close to 40% before then it could recover 40 cents of every dollar paid in Ohio income tax savings from its federal taxes. That is no longer available. It has been my personal experience that some of my tenants and some of my clients are holding on by their fingertips. This has not exactly been a Golden Age for small businesses in Ohio. Many, many small businesses in Ohio are struggling. This is not a good

time to be raising taxes.

Small businesses are not simply miniature big businesses. They are organically different. A tax or regulation which would be a nuisance to a big business could be fatal to a small business. The three most important things for small businesses are:

1. Cash flow
2. Cash flow
3. Cash flow

Cash flow to small business is like air. It needs cash flow every single minute in order to survive. Any cash flow taken away from a small business is like air taken away from the human body. It causes a deterioration in its ability to function.

I can tell you from my own experience that most of the net new jobs are created by small businesses. This was documented by an acquaintance of mine David Birch who in 1987 wrote a book titled "Job Creation in America- How our smallest companies put the most people to work." The title of this book is true in all areas in America and especially in Ohio. There are not a whole lot of new companies moving to Ohio. The way Ohio gets its new jobs is from organic growth by small businesses. Dr. Birch coined a term for very rapidly growing small businesses. He called these businesses "gazelles". There are only a few gazelles at any one time. But they are the businesses growing the most rapidly and adding the most employees. It is these gazelles which will be hurt the most by this tax increase on small businesses. If the small business deduction is reduced to \$100,000 and the 3% cap is eliminated altogether these gazelles will have less money available to reinvest in our businesses.

Once again, I appreciate the time you have given me here today and I appreciate the hard, difficult work you do as Senators in the State of Ohio. I would be happy to answer any questions you have.

Thank you much.

Respectfully submitted,

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