



# BUILDING FOR OHIO'S NEXT GENERATION

BUDGET OF THE STATE OF OHIO · FISCAL YEARS 2018–2019

## **STRENGTHENING OHIO'S JOBS-FRIENDLY CLIMATE**

Ohio has seen an impressive turn-around in its business climate over the past six years under the leadership of Governor John R. Kasich, receiving strong votes of confidence from a number of national surveys for the state's work to build a strong, business-friendly environment for job creation, capital investment and economic success. By continuing to focus on areas critical to long-lasting jobs growth, Ohio has seen the most improved business climate in the nation, creating nearly 450,000 new private sector jobs since the start of 2011 and bringing unemployment rates down to pre-recession levels.

### **Priority One: Preserving Ohio's Fiscal Stability with Conservative Budgeting**

The essential foundation of Ohio's economic turnaround and improved business climate is state government's fiscal stability. As a result, Kasich budgets have been among the strongest in the nation, and world-class corporations and small business operators alike are realizing that Ohio's stable state finances make it a welcoming place to do business and to have that business succeed. Then, as now, Ohio's jobs-friendly fiscal stability has been the result of conservative budgeting and restrained government spending in each of Gov. Kasich's three previous biennial budgets.

### **Developing a 21<sup>st</sup> Century Tax Plan to Drive More Job Creation**

Ohioans have enjoyed one of the biggest tax cuts in the nation over the past six years with more \$5 billion in tax relief. These tax cuts have helped spur our state's economic recovery and made Ohio one of the nation's top states for job creation. In the last biennial budget, Ohio took major steps to eliminate income taxes for many small businesses and further reduce income tax rates for all Ohioans. Despite these most recent reforms, many elements of Ohio's tax system remain irrational and align poorly with today's consumer-driven economy.

- **Fewer Tax Brackets and Lower Tax Rates:** Currently, the rate at which an Ohio worker pays personal income taxes is based on nine income brackets. Governor Kasich is proposing to lower rates and reduce the number of brackets to five. This would greatly simplify Ohio's tax system and if adopted with other proposed income tax changes, would deliver a 17 percent income tax cut over fiscal years 2018 and 2019.

Current Brackets	Rates
0-\$5,250	0.495 %
\$5,250-\$10,500	0.990 %
\$10,500-\$15,800	1.980 %
\$15,800-\$21,100	2.476 %
\$21,100-\$42,100	2.969 %
\$42,100-\$84,200	3.465 %
\$84,200-\$105,300	3.960 %
\$105,300-\$210,600	4.597 %
More than \$210,500	4.997 %

New Income Brackets	Tax Rates 2017	Tax Rates 2018
Up to \$10,000	0.50%	0.456%
\$10,000 - \$25,000	1.50%	1.367%
\$25,000 - \$100,000	3.25%	2.963%
\$100,000 - \$200,000	4.25%	3.874%
More than \$200,000	4.75%	4.33%

- **New Tax Relief for Low- and Middle-Income Ohioans:** Ohio will cut taxes for low- and middle-income Ohioans by increasing the personal exemption for state income taxes, a reform that, with other income tax changes, will eliminate state income taxes for more than 350,000 lower income Ohio households. For those earning less than \$40,000 a year, the exemption increases from \$2,250 to \$3,000 in 2017, and for those earning between \$40,000 and \$80,000 a year, the exemption increases from \$2,000 to

\$2,500. In 2013, prior to Gov. Kasich’s initial tax cuts for low- and middle-income families, the exemption was \$1,700 for all taxpayers. In addition, the Governor’s proposal would expand the low income credit by increasing the level of income eligible to claim the credit from \$10,000 to \$15,000 of Ohio adjusted gross income, less personal exemptions. The low income credit eliminates tax liability for those who qualify.

- **Simplifying Municipal Tax Filing for Businesses to Encourage More Economic Growth:** Despite significant progress in recent years to address long-standing problems in Ohio’s municipal tax system, it remains cumbersome and costly as businesses are forced to comply with hundreds of different local tax systems. To save businesses the extra cost of computing and then filing “net profit” taxes with multiple municipalities, Ohio seeks to streamline the process by having businesses file just one form and a single payment online through the Ohio Business Gateway, with the Ohio Department of Taxation processing payments and distributing revenues back to the appropriate local government, just as it does for county sales taxes and school district income taxes. This is an important step toward bringing common sense to an outdated system and will save money for business taxpayers. It will also save money for municipalities. The Department estimates that by bringing economies of scale to the processing of this tax, it can reduce administrative costs for these communities by about \$9 million a year.
- **Moving Toward a Consumption-Based Tax System:** Leading economists believe that taxing income discourages investment and job creation. Continuing to move Ohio’s tax system from a significant reliance on income taxes and toward a greater reliance on consumption taxes will give Ohioans more control over how they are taxed and the taxes they pay, as well as better aligning the tax system with the growing service sector in our economy. This budget proposes increasing the sales tax by a half percent, from 5.75 percent to 6.25 percent, meaning consumers would pay an additional 50 cents on a \$100 purchase (while maintaining tax exemptions for groceries and prescriptions). The budget seeks to broaden Ohio’s sales tax base to certain discretionary services including cable TV subscriptions, elective cosmetic surgery/procedures, lobbying, landscape design, interior design and decorating, travel packages and tours, and repossession services.
  - **Tax Reform:** The governor’s budget continues to move Ohio’s tax system away from its excessive reliance on taxing income by moderately expanding and reforming the tax base of several other revenue streams, including:
  - **Increasing Tobacco Taxes:** Under this proposal, Ohio’s cigarette tax would go from \$1.60 to \$2.25 per pack; the tax on other tobacco products would rise to a rate equivalent to the tax on cigarettes. Vapor products (primarily e-cigarettes) would become subject to the tax levied on the other tobacco products.
  - **Aligning Ohio’s Outdated Alcohol Taxes with the Current Market:** Ohio’s tax on alcoholic beverages (excluding liquor), was last updated in 1992 and fails to reflect the fast-changing mix of alcohol products available in the marketplace today. Taxes on beer and wine will be adjusted for inflation that has eroded the tax base over more than two decades and be adjusted to better match the current alcohol industry and its offerings, a reform that will also help reduce income tax rates.
  - **Modernizing Ohio’s Oil and Gas Tax System:** Ohio currently has approximately 1,500 producing oil and gas shale wells. Just as Ohio has modernized its oil and gas regulations to keep pace with new drilling technologies, we must modernize the state’s tax system on oil and gas production, created more than 40 years ago. Ohio’s current severance tax is just 20 cents on a barrel of oil and 3 cents on an MCF (thousand cubic foot) unit of natural gas. The current structure did not anticipate Ohio’s highly valuable new natural gas liquids production. The governor proposes fixed rates for crude oil and natural gas of 6.5 percent when sold at the wellhead, and a lower rate of 4.5 percent for natural gas and natural gas liquids when sold at later stages of distribution. These rates are lower than those levied by other major state producers, such as Texas, Oklahoma and North Dakota, and will place Ohio squarely in the middle of the pack of all state rates. The difference in the proposed new rates makes an allowance for costs incurred with products sold beyond the wellhead as they are brought to market. All Ohioans will share in the benefits of our state’s oil and gas resources in the form of lower income taxes.

**NEW SEVERANCE TAX RATES ARE FAIR AND COMPETITIVE**

Product	Rates	
	At Wellhead	Downstream
Crude Oil	6.5%	N/A
Natural Gas	6.5%	4.5%

Natural Gas Liquids	N/A	4.5%
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**FY 2018 and FY 2019 Projected Tax Relief with Offsets**

*All figures in millions of dollars, rounded to the nearest million.*

	<b>FY2018</b>	<b>FY2019</b>	<b>Total</b>
<b>State Income Tax Reduction (all changes)</b>	-1,244	-1,883	-3,127
<b>Cigarette and Other Tobacco Taxes</b>	312	346	658
<b>Broadening Base of Sales Tax**</b>	166	251	417
<b>Sales Tax to 6.25%</b>	560	879	1,439
<b>0.5% Increase on Base Expanders*</b>	12	18	30
<b>Commercial Activity Tax provisions</b>	8	25	33
<b>Oil and Gas Severance Tax</b>	137	311	448
<b>Modernizing Alcoholic Beverage Tax Rates</b>	26	30	56
<b>Repeal campaign contribution credit</b>	3	4	7
<b>TOTAL revenue increase</b>	1,224	1,864	3,088
<b>TOTAL net tax cut</b>	-20	-19	<b>\$39 million net cut over the biennium</b>

*(\* totals reflect rate of 6.25%) (\*\* totals reflect rate of 5.75%)*

- **Increasing Parity in the Commercial Activity Tax (CAT):** This proposal would correct an oversight in state tax law that allows certain companies in the business of lending money to completely avoid paying the CAT or other business tax on interest payments collected on loans. Separately, another proposal would ensure that suppliers of certain large warehouse and shipping operations – designated as Qualified Distribution Centers (QDC) – pay a minimum CAT liability on taxable gross receipts from transactions associated with the QDC. Companies inside and outside Ohio selling products to a QDC pay little or no CAT while other companies selling to non-QDC warehousing operations are required to pay the CAT on 100 percent of their taxable gross receipts from such sales. This proposal would subject a minimum of 10 percent of a supplier’s taxable gross receipts from sales to a QDC to the CAT.
- **Eliminating the Clutter in State Law for Those Who Pay Property Taxes:**
  - **Providing a Consistent Approach to Property Tax Appeals:** An Ohio taxpayer currently seeking to contest a property tax bill must begin by appealing at the county-level Board of Revision (BOR). Appeals of BOR decisions are taken directly to the state Board of Tax Appeals – with one exception. Confusingly, state law sends appeals regarding a penalty for not paying property tax to the Ohio Tax Commissioner. This proposal eliminates that inconsistency by taking the Tax Commissioner out of the process and instead directs all cases to the Board of Tax Appeals.
  - **Ensuring Uniformity for Property Tax Exemption Applications:** State universities often own property that qualifies for exemption from property taxes. To gain exempt status for certain types of qualifying property, universities presently need to apply for an exemption with the county auditor. This proposal would transfer the application and approval process from the county to the Ohio Tax Commissioner. This reform is supported by the County Auditors Association of Ohio.
  - **Eliminating Redundancy in State Law on Tax Exemption for Cemeteries:** Under current law, most cemeteries in Ohio are exempt from property taxes. However, language providing that exemption is redundantly described in five separate locations in the Ohio Revised Code (ORC). This measure would eliminate the redundant provisions and combine the necessary language in one section of the ORC.
- **Making Important Changes in Excise Tax Collection:**
  - **Simplifying a Property Owner’s Exemption for Personal Use of Natural Gas:** Ohio residents with a natural gas well on their property are entitled to personally use up to \$1,000 worth of their well’s production without paying severance tax on that portion. However, because most of these non-commercial wells are not equipped with meters to measure how much gas is extracted

and used, the owner can't know for certain whether tax is owed. This proposal would remove the \$1,000 limit and exempt all personal use of natural gas from the severance tax.

- Establishing a One-Stop Process for Severance Permit Applications: Ohio's severance tax law requires a permit to extract certain minerals. Taxpayers obtain their permits from the Ohio Department of Natural Resources (ODNR), but the law also allows them to get a permit from the Ohio Tax Commissioner. Currently, permits from ODNR are issued at no charge, but any issued by the Tax Commissioner require a fee. This reform would end this inconsistency by assigning issuance of all severance permits to ODNR and removing the Tax Commissioner from the process.
- Simplifying the Tax Return Process for Cigarette Wholesalers: Cigarette wholesalers have followed a cumbersome process of filing monthly tax schedules and a semi-annual reconciliation return to verify the inventory they have been reporting each month. This proposal would significantly reduce that paperwork burden by consolidating these reports on one monthly return.
- Eliminating Loopholes to Ensure Tax Payments Are Current: Before a liquor permit can be issued or renewed, the Department of Taxation checks to make sure the merchant doesn't owe sales or employer withholding taxes to the state. This provision would ensure that the merchant also is current on all excises taxes (e.g., tobacco taxes and alcoholic beverage taxes) before a permit is issued. Similarly, another proposed provision would authorize the Tax Commissioner to deny licenses to tire distributors, motor fuel dealers or tobacco distributors if they are delinquent with any tax payments.
- Making Truth a Requirement for Obtaining or Holding a License: This proposal would provide authority to deny or revoke a tax-related license if the application contains a fraudulent statement.

● **Updating Sales Tax Laws:**

- Eliminating Unneeded Paperwork from County Auditors: County auditors are now required to report a list of all vendor's licenses to the Ohio Department of Taxation. That report is no longer necessary because all state vendor's licenses are now obtained and registered electronically through the department.
- Bringing Sales Tax Brackets into the Computer Age: Before computers and electronic cash registers, Ohio law defined a series of tax brackets to help merchants determine how much sales tax to charge on a particular item (e.g., if there is a combined state/local sales tax rate of 7 percent, items priced between 8-21 cents are taxed one cent). Now retail technology computes the tax due based on the rate that exists in a particular county. This provision eliminates the obsolete brackets from the Ohio Revised Code.
- Ensuring Better Scrutiny of Habitually Late Taxpayers: Business taxpayers who repeatedly fail to remit sales tax they collect or neglect to file sales tax returns on time are placed in the Habitual Offenders Program (HOP) to help them maintain compliance. At times, some HOP participants will take money they have collected for the employer withholding tax and use it to pay the sales tax so that they remain current and compliant with HOP requirements. This proposal would require HOP taxpayers to be current with both sales tax and employer withholding tax obligations.

● **Making Other Common-Sense Tax Code Revisions:**

- Setting a Sensible Minimum before Collecting the Wireless 9-1-1 Charge: With this proposal, the state fee that helps pay for county 9-1-1 service would add a provision to require a one dollar minimum for collection or refund. This would make the Wireless 9-1-1 fee consistent with all other state taxes in this regard.

**BOTTOM LINE:** By making tax reform a priority each year of the Kasich Administration, Ohio has strengthened its ability to grow the economy and jobs in our state. With other states also cutting taxes and looking to keep themselves competitive, Ohio must continue to make its tax code friendlier to job creators and entrepreneurs, while helping Ohioans keep more of what they earn.

