OHIO'S JOBS BUDGET 2.0

JOBS. MOMENTUM. TRANSFORMATION.

Tax Reform

Creating Jobs by Cutting Taxes and Reforming the Tax Code

Ohio's taxes are too high and the state relies too much on counterproductive tax methods such as the income tax. Creating a jobs friendly climate in Ohio means tearing down tax barriers that keep job creators from investing, expanding and hiring new workers. This is especially true for small businesses, which employ half of Ohio's private-sector workforce and pay personal income tax on their business earnings.

Two years ago in his first budget, Gov. John Kasich struck his first blow against Ohio's high taxes by cutting taxes $800 million by reducing the income tax and eliminating the Death Tax altogether. In this budget, Gov. Kasich builds on that progress with a $1.4 billion tax cut package (over three years) benefiting every Ohioan, regardless of their income. He calls for cutting taxes for small business owners in half on the first $750,000 of earnings, cutting the income tax by 20 percent, cutting the state sales tax rate from 5.5 to 5.0 percent and eliminating the severance tax altogether for small, conventional natural gas producers. At the same time, the Governor's proposal modernizes Ohio's tax code by broadening the sales tax base to include additional services and by raising the outmoded severance tax from 20 cents on a barrel of oil to 4.0 percent—still the lowest in the region.

$1.9 Billion Small Business Tax Cut: Income taxes on virtually all Ohio small businesses will be cut in half on the first $750,000 of earnings. The total income of approximately 98 percent of small businesses falls below this level. This dramatic tax cut frees up significant amounts of new capital ($1.9 billion over three years) for small businesses to better leverage the expanding economic recovery and make new investments and increase hiring to improve their competitiveness.

$2.1 Billion Income Tax Cut: Personal income taxes will be cut for all Ohioans by 20 percent over three years as a result of new severance tax rates for oil and gas drillers, and a broadening of the sales tax base. The tax cut will be phased in, starting with an immediate reduction of 7.5 percent in year one (equivalent to a $750 million tax cut), a 7.5 percent reduction in year two (equivalent to a cumulative $1.5 billion tax cut), and an additional five percent cut in year three (equivalent to a cumulative $2.1 billion tax cut). This change lowers Ohio's top marginal rate from 5.925 percent to 4.74 percent.

Sales Tax Rate Cut: Ohio's state sales tax rate will be cut from 5.5 percent to 5.0 percent. This savings estimated at $2.4 billion over three years will be especially beneficial to lower and middle income Ohioans, since sales taxes hits harder on their lower income amounts. Ohio's strong consumer products companies and retailers will be positively impacted by this reduction as well, since Ohioans will see less of their money taken by government and more available for their purchases.

Eliminating Severance Taxes on Small Producers: Ohio's small, conventional natural gas producers will see their severance taxes eliminated altogether. This means that 90 percent of the natural gas wells in Ohio will pay no severance tax.

Comprehensive Tax Reform—More Sustainable, More Competitive: The FY14-15 budget proposes broadening the sales tax base to include additional services and increasing Ohio's outmoded severance tax from 20 cents on a barrel of oil to a low fixed rate of 4.0 percent. States and cities with high income taxes are more likely than ever before to drive revenue and investment away to lower tax jurisdictions. Shifting Ohio's tax system away from its excessive reliance on income and toward a greater reliance on consumption of services helps combat income flight, and better aligns it with the national and Ohio trend toward a more robust service sector in our economy.

- This reform tracks with findings of the Ohio Legislative Study Committee on Ohio's Tax Structure released in April 2012 that recommended the sales tax be applied to all economic activity on an equal basis. The broadening of Ohio's sales tax base to include additional services allows Ohio's state sales tax rate to be reduced from 5.5 percent to 5.0 percent and an adjustment in county and transit authority sales tax rates will prevent a sudden, unintended spike in county sales tax revenue. The inclusion of new taxable services would, of course, maintain exemptions for services related education, housing construction and rent, health care, and residential utilities.

Good Management Dividend: Controlling government costs and achieving strong revenue growth will allow Ohio to maximize the Budget Stabilization Fund at its statutory target of about $1.5 billion. Any surplus above that level would result in a temporary income-tax rate reduction of approximately 4 percent for all Ohio taxpayers. This tax relief would be in addition to the governor's proposal to cut income taxes by 20 percent over three years.

BOTTOM LINE: Reducing the tax burden on small businesses and reforming our tax structure will give Ohio a more jobs-friendly, competitive economic environment, allowing our state to continue to improve on our position as a national leader in job creation.

###