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State and Local Tax Alert: Ohio Governor Kasich Proposes Numerous Tax Changes in 2016-2017 State Budget

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Ohio Governor John Kasich recently outlined the tax changes he will include in his 2016-2017 biennial state budget. The governor's proposal is a mixture of cuts, increases and elimination of taxes which he says will result in a net \$500 million tax cut for Ohioans. The taxes included in his package are: sales tax, commercial activity tax, oil and gas severance tax, individual income tax and tobacco tax.

No language has been introduced in bill form so the details of these proposals remain unclear. Hearings on the governor's budget began February 3 in the Ohio House and will continue through mid-April. More details about the tax proposal will come out during these hearings as Tax Commissioner Joe Testa and other cabinet officials testify. The administration will also release more detailed information in the next few weeks.

Vorys is providing this early notice so you can consider how these proposals will affect your business. We will closely monitor the budgetary process and provide additional updates as events warrant. Gov. Kasich proposes to:

Sales Tax

- Increase the state sales tax rate from 5.75% to 6.25%.
- Tax a number of services for the first time, including cable television subscriptions, parking, lobbying, public relations, market research/opinion polling, management consulting, travel services, and debt collection services.
- Reduce the timely filing discount for vendors to \$1,000 per month. Currently a vendor may retain 0.75% of all sales tax the vendor collects.
- Reduce the sales tax benefit of trading in a car or boat to 50% of the value of the trade-in. Under current law the full value of the trade-in reduces the price of the purchased car or boat.

Commercial Activity Tax (CAT)

- Increase the CAT rate from 0.26% to 0.32%, the first increase since the CAT was enacted in 2005.
- Reduce the CAT on the first \$1 million from \$800 to \$150 for taxpayers with annual taxable gross receipts between \$1 million and \$2 million. This reverses a change the General Assembly made in 2013 effective for the 2014 calendar year.

Oil and Gas Severance Tax

- Increase the tax on oil and gas severed by horizontal wells. The tax on crude oil sold at the wellhead would be 6.5% and the tax on natural gas and natural gas liquids sold downstream would be 4.5%. Under current law the severance tax is 20 cents per barrel of oil and 3 cents per MCF (thousand cubic foot). The tax base on horizontal well products would be measured by value rather than volume.
- Eliminate severance tax on conventional wells producing less than 10 MCF per day of natural gas.

Individual Income Tax

- Reduce marginal income tax rates by 15% in 2015 and 8% in 2016, meaning the top marginal income tax rate will go from 5.333% to 4.1%.
- Eliminate the income tax on income from businesses with less than \$2 million dollars in gross receipts, including sole proprietors, limited liability companies, partnerships, and S corporations.
- Increase the value of personal exemptions for taxpayers with income under \$80,000.
- Impose a means test on the retirement income credit, the social security deduction, the \$50 senior credit, and the lump sum senior credit.

Tax on Tobacco Products

- Increase the tax on a pack of cigarettes from \$1.25 to \$2.25, increase the rate on other tobacco products, and impose a new vapor product tax equalized to the tax on cigarettes.

Miscellaneous

- Do away with the deduction allowed for early beer and wine tax return filing and payment.

Vorys encourages you to review these proposals and contact your Vorys attorney or advisor with questions or concerns about how these tax changes may affect your business. Please feel free to contact any of the following Vorys attorneys: Anthony L. Ehler, (614) 464-8282, tlehler@vorys.com; David A. Froling, (614) 464-3022, dafroling@vorys.com; John S. Petzinger, (614) 464-5696, jspetzinger@vorys.com.