



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



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Helping Small Businesses

Cutting Taxes, Strengthening the Workforce and Improving Infrastructure to Help Job Creators

Small businesses are the drivers of our economy, making up roughly 98 percent of all Ohio businesses and employing half of our state's private-sector workforce. Over the past two years, a lot has been done to help small businesses in Ohio – reinstating a \$450 million income tax cut, saving taxpayers more than \$300 million by eliminating the death tax, and cutting overly burdensome regulations are just a few examples. In the process, we've seen Ohio swing from 48th in job creation to one of the top job creators in the country and 1st in the Midwest. In order to keep our state moving forward, Ohio's Jobs Budget 2.0 proposes several new reforms that will help small businesses continue to grow and create jobs.

\$1.9 Billion Small Business Tax Cut: Income taxes on virtually all Ohio small businesses will be cut in half. Personal income taxes paid by owners of small business will be reduced 50 percent on the first \$750,000 of earnings. This dramatic tax cut frees 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. For example, a small business with \$750,000 in annual net income would save approximately \$20,000 through tax reductions under the Kasich plan.

Reducing the Cost of Government: Treating every tax dollar as if it was his own, Gov. Kasich has regularly challenged his Administration to identify opportunities to reduce the cost and size of government. Reforms in the governor's proposal will result in a \$1.3 billion net tax cut for Ohioans over three years, largely achieved by making innovative reductions in spending and identifying opportunities for cost savings. Reining in the cost of government reduces the reliance on tax dollars, giving job creators more money to hire additional people and invest in their operations.

Sales Tax Rate Cut: The state sales tax rate will be cut from 5.5 percent to 5.0 percent, saving Ohioans an estimated \$2.4 billion over three years. Ohio's strong consumer products companies and retailers will be positively impacted by this reduction as well, since Ohio consumers will see less of their money taken by government and more available for their purchases.

Producing a Better Educated Workforce: A well-educated workforce is key to small-business success and Ohio's ongoing economic recovery. Gov. Kasich's budget builds upon the Administration's efforts to improve education outcomes for those in both the K-12 and higher education systems, better preparing Ohioans for work opportunities and providing job creators with the talent they need to be successful. Children in grades K-12 will get the support they deserve to be successful, and funding for Ohio's two- and four-year universities will be tied to degree completion rather than enrollment. These steps will keep the emphasis of our education system on outcomes rather than inputs, ultimately producing a stronger workforce.

Improving Ohio's Infrastructure without a Tax Increase: Ohio's job creators depend on the ability to efficiently ship raw materials and goods throughout the state and across the country. We face a \$1.6 billion deficit in our infrastructure budget. Under Gov. Kasich's proposal, Ohio could access as much as \$3 billion for major Ohio transportation projects through \$1.5 billion in new bonds—issued by the Ohio Turnpike Commission and backed by future Turnpike revenues—and an additional \$1.0 to \$1.5 billion generated from matching local and federal funds.

While transportation projects in northern Ohio, including the Turnpike, will receive most of the new Turnpike funds, this plan frees up the Dept. of Transportation to spend the state's gas tax and federal funds on highways downstate—allowing all projects to move forward faster and helping businesses throughout Ohio gain access to better roads, bridges, and rail systems.

BOTTOM LINE: Cutting taxes, producing a well-educated workforce and fixing Ohio's infrastructure without a tax increase will give job creators, especially small businesses, more opportunities to grow and create jobs across the state.

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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.

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