



A Tale of Two Budgets: Competing Views on How the Biennium Budget Will Impact Businesses in Ohio

July 30, 2013

A Government Relations Bulletin

On June 30, 2013, Ohio Governor John Kasich signed into law [H.B. 59](#) — the biennium budget for fiscal years 2014 and 2015. Introduced in February as "Ohio's Jobs Budget 2.0," the Governor's original proposal featured several sweeping changes to Ohio's tax structure. Negotiations and debate ensued, mainly between the Governor and Republicans in the General Assembly, over a proposed oil and gas severance tax hike and the expansion of Medicaid, among other things. In the end, several of Governor Kasich's controversial provisions were reduced or dropped from the bill altogether and the Governor vetoed 22 items before signing the bill into law, which took effect July 1, 2013. In its final form, the law contains many provisions that will impact businesses in Ohio. These impacts are still the subject of vigorous debate between proponents that insist there will be "improved competitiveness, increased business investment and thousands of new jobs," and opponents that maintain the money saved through these tax cuts will prove insufficient for the hiring and major economic growth activities that Republicans are promising.¹

In addition to reducing income tax on all Ohio taxpayers by 10 percent in the next three years (down from the Governor's original proposal of 20 percent), the \$62-billion budget also requires small business owners to pay taxes on only 50 percent of their first \$250,000 in income (down from the Governor's original proposal of \$750,000). The Governor said the small business tax cut "frees more than \$1.6 billion of new capital over three years for small businesses to better leverage the expanding recovery and make new investments and increase hiring to improve their competitiveness."²

Governor Kasich and other supporters of the budget maintain the business tax cut will make the state "more attractive to small businesses" and that an income tax "essentially punishes hard work," while a sales tax leaves the "incentive to work" intact.³ In a guest column, the Governor said raising the sales tax and lowering the income tax will allow small businesses in Ohio, which "employ half of Ohio's private



**Christopher
N. Slagle**
Partner

Columbus
614.227.8826
cslagle@bricker.com



**Gregory
J. Lestini**
Partner

Columbus
614.227.4893
glestini@bricker.com

sector workers . . . to keep more of their own money."⁴

Because many small business owners run their companies as pass-through entities, they get taxed on sales as well as on personal income because they are required to include business income on individual tax returns. The 50 percent deduction is capped at \$62,500 for married individuals filing separately and \$125,000 for all other individual taxpayers. Proponents of the tax cut say it reduces the disparity between operating a large business and a small business in Ohio.⁵

An analysis conducted by the Cincinnati Enquirer concluded — that most of Ohio's small businesses will save "just a few hundred dollars a year," falling far short of amounts sufficient to fund new hires or significant purchases.⁶ According to the Enquirer's statistics, the annual income of 80 percent of small businesses in Ohio is \$25,000 or less, and that this percentage of Ohio businesses will get "no more than \$351 in tax savings" from the small business tax cut. At the high end, businesses with an annual income of \$250,000 a year will save \$7,000.⁷

Governor Kasich's proposal that the state's sales tax be dropped from 5.5 percent to 5.0 percent and then broadly expanded to include virtually all services and transactions involving intangible property was dropped from the bill. ⁸ Instead, a quarter-percentage point increase in the sales tax from 5.5 percent to 5.75 percent, effective September 1, 2013, and a "small increase" in the commercial activity tax (CAT) for some businesses will be used to pay for part of these tax cuts. ⁹ Some business owners have expressed concern that the sales tax increase could essentially cancel out their business income tax break should their customers decide to reduce their discretionary purchases. ¹⁰

The budget increases the CAT — an annual tax imposed on the privilege of doing business in Ohio — for businesses with sales greater than \$1 million. It also permits Ohio to become a full member in the Streamlined Sales Tax Initiative, which is a cooperative effort across state lines that aims to level the playing field by ensuring that "brick-and-mortar" stores and remote online sellers can operate under the same sales tax collection rules.¹¹

Ohio House Republican leadership described the budget as a "flatter, fairer tax system that helps all Ohioans . . . [and] tells entrepreneurs and business owners that they are welcome and wanted in Ohio." Over the course of three years, "all Ohio workers and small businesses will experience a net income tax cut totaling more than \$2.7 billion." The House Majority Caucus said emphasizing consumption taxes instead of income taxes will create a "more attractive, job-friendly tax climate in Ohio."¹²

Ohio House Speaker William G. Batchelder (R-Medina) said that the personal income tax cut and the business tax cut will "surely help job creators invest so that they can hire more Ohio workers," but the Enquirer analysis determined that only the 1.6 percent of Ohio's small businesses making between \$250,000 and \$2 million annually

will save enough from the tax break to be able to hire a new employee.¹³

Several other parts of the state's tax code were modernized, including "equalizing taxes on cigarettes and cigarette-like products called 'cigarillos,' and equalizing the taxes between digital and tangible items such as books and magazines."

Among the 22 provisions vetoed by Governor Kasich before he signed the bill was the mandatory collection of sales tax on Internet sales by out-of-state companies shipping into Ohio, which the Governor said conflicts with the federal government's right to regulate interstate commerce.¹⁴

Footnotes

1. Stoff, Richard A. (June 26, 2013) "Statement on tax reform proposal of House and Senate conference committee" Ohio Business Roundtable; Horn, Dan (July 7, 2013) "WATCHDOG: Will new tax cuts help small businesses? Ohio budget will mean just a few hundred dollars a year for most firms" Cincinnati Enquirer.
2. Kasich, John, "Transforming Ohio for jobs & growth: Ohio's FY14-15 budget."
3. Thompson, Andy. (July 18, 2013) "State budget paves way for more economic growth in Ohio;" Kasich, John (July 1, 2013) "Guest Column: A budget that celebrates the freedom to succeed."
4. Horn, Dan (July 7, 2013) "WATCHDOG: Will new tax cuts help small businesses? Ohio budget will mean just a few hundred dollars a year for most firms" Cincinnati Enquirer.
5. Siegel, Jim (July 14, 2013) "The state budget: big tax cut? It depends" Columbus Dispatch
6. Horn, Dan (July 7, 2013) "WATCHDOG: Will new tax cuts help small businesses? Ohio budget will mean just a few hundred dollars a year for most firms" Cincinnati Enquirer
7. Vardon, Joe (May 4, 2013) "Kasich blasts Ohio chamber for tax-plan opposition" The Associated Press.
8. Thompson, Chrissie (July 18, 2013) "Kasich sets goal of top tax bracket under 5%" Cincinnati Enquirer.
9. Miller, Jay (July 7, 2013) "Taxes axed even as state budget bulges under Kasich: Spending continues to climb in the latest two-year plan" Crain's Cleveland Business; Horn, Dan (July 7, 2013) "WATCHDOG: Will new tax cuts help small businesses? Ohio budget will mean just a few hundred dollars a year for most firms" Cincinnati Enquirer
10. Siegel, Jim (July 14, 2013) "The state budget: big tax cut? It depends" The Columbus

Dispatch.

11. (July 12, 2013) "Ohio joins Streamlined Sales and Use Tax Project" The Ohio Society of CPAs.
12. Majority Caucus (June 20, 2013) "House and Senate leaders unveil budget tax reform plan: Budget proposal maintains focus on helping families, creating jobs" Ohio House of Representatives Majority Caucus Blog.
13. Batchelder, William G. (July 16, 2013) "Letting Ohioans keep their money through meaningful tax reform." Ohio House of Representatives Majority Caucus Blog.
14. Kasich, John (June 30, 2013) "Statement of the reasons for the veto of items in Amended Substitute House Bill 59."