



## Governor Kasich presents 2018-19 budget proposal

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Earlier this week, Ohio Governor John Kasich released his executive budget proposal for fiscal years 2018 and 2019. Though the exact statutory language is not yet available, the governor's \$144 billion budget proposal includes several familiar tax provisions similar to those that the General Assembly has rejected in past budget deliberations.

According to the *Columbus Dispatch*, several of the tax provisions may be "dead on arrival" at the General Assembly. Once again, Gov. Kasich proposes an income tax cut to be largely offset with a 0.5 percent hike to the sales tax rate and broadening of the sales tax base to include more services. The executive budget specifically proposes a 17 percent cut in personal income taxes, which would be partially offset through a \$1.9 billion sales tax increase over two years.

Still, Republican leadership in the Ohio House and Senate have signaled that they are willing to work with the governor on some proposals. For example, Senate President Larry Obhof and House Speaker Cliff Rosenberger have expressed support for the governor's proposal to reduce the number income tax brackets from 9 to 5.

Together, Gov. Kasich and the General Assembly must address flagging tax revenue growth in 2017 and future years. As we [reported](#) in December, the governor recently predicted that Ohio may be "on the verge of a recession." The governor's tax proposals, discussed in detail below, are designed to jump start the Ohio economy and address this revenue shortfall.

### INCOME TAX:

- The executive budget would reduce income tax rates and the number of tax brackets from nine to five, as shown in the following table:

Current Tax Brackets and Rates	Proposed Tax Brackets and Rates
<b>\$0-\$5,250:</b> 0.495%	<b>\$0 to \$10,000:</b> 0.5% in 2017; 0.456% in 2018
<b>\$5,250-\$10,500:</b> 0.990%	<b>\$10,000-\$25,000:</b> 1.5% in 2017; 1.367% in 2018
<b>\$10,500-\$15,800:</b> 1.980%	<b>\$25,000-\$100,000:</b> 3.25% in 2017; 2.963% in 2018
<b>\$15,800-\$21,000:</b> 2.476%	<b>\$100,000-\$200,000:</b> 4.25% in 2017; 3.874% in 2018
<b>\$21,000-\$42,100:</b> 2.969%	<b>\$200,000 and above:</b> 4.75% in 2017; 4.33% in 2018
<b>\$42,100-\$84,200:</b> 3.465%	
<b>\$84,200-\$105,300:</b> 3.96%	
<b>\$105,300-\$210,600:</b> 4.597%	
<b>\$210,600 and above:</b> 4.997%	

The executive budget would also reduce withholding rates in parallel with the foregoing rate reductions.

- Personal Exemption: Gov. Kasich proposes increasing the personal exemption for Ohioans earning less than \$40,000 per year from \$2,250 to \$3,000, and for those earning between \$40,000 and \$80,000 a year, from \$2,000 to \$2,500.
- The executive budget would increase the low income credit threshold from \$10,000 to \$15,000. According to the governor, this adjustment would eliminate all state income taxes for more than 350,000 low-income Ohioans.

### SALES TAX:

- Gov. Kasich proposes increasing the sales tax rate by half a percentage point, from 5.75 percent to 6.25 percent.
- The executive budget would broaden the sales tax base to impose sales tax on cable TV subscriptions, elective plastic surgery, lobbying fees, landscape and interior design fees, travel packages, and repossession services.
- Medicare Managed Care Plans: Since 2010, Ohio has imposed a sales tax on monthly payments to managed care plans for Medicaid coverage. Beginning in July 2017, the tax will be discontinued because the federal Centers for Medicare and Medicaid Solutions has declared the tax impermissible. The shift in federal policy creates an estimated loss to Ohio of \$839.7 million in fiscal year 2018 and \$986 million in fiscal year 2019. To compensate, the governor proposes a new entity-level tax on all health-insuring corporations, which would generate \$615 million in fiscal year 2018.

### SEVERANCE TAX:

- The executive budget would impose a tax on high-volume horizontal wells (hydraulic fracturing wells) on severances of oil, gas, condensate, and natural gas liquids.
- The tax rate would be 6.5 percent on the market value of oil or gas, specifically the volume of oil or gas multiplied by quarterly spot prices for exchange-traded commodities.
- For natural gas liquids, including ethane and butane, a lower 4.5 percent tax rate would be imposed due to additional processing costs incurred in separating natural gas liquids from dry gas. As discussed, the tax rate would be applied to the exchange-traded spot prices.

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- The additional tax revenue from the proposed severance tax on horizontal wells is projected to generate \$136.6 million and \$310.6 million in tax revenue for fiscal years 2018 and 2019, respectively.

## COMMERCIAL ACTIVITY TAX:

- The current commercial activity tax regime is shown in the following table:

Taxable Gross Receipts	Annual Minimum Tax	CAT
\$150k or less	Need not register	Need not register
\$150k+ to \$1M	\$150	No additional tax
\$1M+ to \$2M	\$800	0.26% x (Taxable Gross Receipts - \$1M)
\$2M+ to \$4M	\$2,100	0.26% x (Taxable Gross Receipts - \$1M)
More than \$4M	\$2,600	0.26% x (Taxable Gross Receipts - \$1M)

- The governor's executive budget would leave this structure in place, but change the distribution of CAT revenue. Under the proposal, CAT revenue to the General Revenue Fund would increase from 75 percent to 85 percent, CAT revenue to the School District Replacement Fund would decrease from 20 percent to 13 percent, and CAT revenue to the Local Government Fund would decrease from 5 percent to 2 percent.
- Two other provisions would increase CAT revenue: first, the executive budget would eliminate the interest receipts exclusion for lenders; second, the budget proposes situsing to Ohio a minimum of 10 percent of gross receipts from manufacturer sales to Qualified Distribution Centers (QDCs) in Ohio. Under current law, sales to QDCs are sitused to Ohio only if the items sold are eventually distributed to Ohio purchasers.

## ALCOHOLIC BEVERAGE TAX

Gov. Kasich would increase by 70 percent the tax rates for most kinds of alcohol other than spirituous liquor. The tax rate for sparkling and carbonated wine and champagne, however, would decrease from \$1.48 per wine gallon to \$0.51 per wine gallon.

## TOBACCO TAX

Raising the cigarette tax by 65 cents, from \$1.60 to \$2.25 per pack, and increasing the tax on cigars and other tobacco products to the cigarette rate.

As for education funding, Gov. Kasich wants to increase state support by 1 to 1.5 percent in each of the two years of the biennium. In fiscal year 2018, which starts July 1, 2017, total funding for local districts would rise by about 1.2 percent, to about \$11.21 billion. In fiscal 2019, funding would increase another \$160 million, or 1.4 percent, to about \$11.37 billion. These amounts exclude reimbursements paid to districts for tangible personal property taxes and real estate taxes, but include some federal supports that pass through the state. On the other hand, districts whose student enrollment levels have dropped more than 5 percent since 2011 could see funding reductions.

[Cleveland.com](#) quoted the governor as saying that "[t]his budget is tight, but it's not as tight as a lot of family budgets. If we find ourselves come the mid-biennial review with faster revenue growth than we're projecting ... then I think we can be in a position again to address some of our priority issues, which I think are things like K-12."

Funding for the state's drug epidemic is yet another hot-button issue. The executive budget maintains the Medicaid expansion in Ohio and the state's \$1 billion per year investment to battle drug addiction, primarily opiate addiction. The [Columbus Dispatch reports](#), however, that legislative leaders from both parties have criticized the governor for flat-funding to fight the crisis. They argue that there is a need for additional resources, noting that Ohio had the most overdose deaths in the county in 2015 with 3,050.

We will keep you posted in the coming weeks and months as the General Assembly reviews Gov. Kasich's executive budget.