

**LEGISLATIVE REVIEW**  
**FEBRUARY 13, 2013 – REPORT #3**

**BUDGET LANGUAGE FORMALLY INTRODUCED AS HB 59**

HB 59 was formally introduced yesterday setting out the details of the Governor's budget proposal in over 4,000 pages of legislative language. The Tax Commissioner outlined the tax reform proposals, which include lowering the state income tax rate by 20%, lowering the state sales tax of 5.5% to 5%, while expanding it to include most services, cutting the business tax by 50% for the first \$750,000 in income, and increasing the severance tax on oil and gas operations. Kasich has proposed a major paradigm shift in Ohio taxation by applying the sales tax to all services except for a few exempted areas related to education, housing construction, rent, health care and residential utilities. OHBA has begun reviewing and analyzing the actual bill language to determine the extent of the impacts. With such wide sweeping changes, there are going to be some directly impacted by, at least, aspects of the Governor's tax reform proposals.

Currently, the enumerated exemptions in the budget bill are very broadly defined, so it will be crucial to analyze the potential impact of the services listed. According to Commissioner Testa's testimony, "it comprehensively broadens the tax base, making a fundamental shift from a reliance on income taxes to a consumption tax basis." Under the tax reform, both goods and services will be taxable unless specifically exempted. Real property construction, considered an essential service, remains exempt. However, OHBA will analyze how other taxable services may impact the construction process.

The reform package includes a small business income tax deduction reducing the tax paid on Ohio net business income by 50%. Small businesses that can take advantage of this tax cut are identified by their business structure. In a pass through entity, such as a partnership, a sole proprietorship or a LLC, the business income passes through the business owner and is reported on the owners Ohio individual income tax return. The Governor's plan reduces the tax on these small businesses, allowing each owner to exclude 50% of Ohio net business income from their adjusted gross income on the first \$750,000, capping the deduction at \$375,000.

As the budget hearings continue, OHBA will be intimately involved in the sales tax discussions, along with any other issues impacting the industry.

Feel free to contact OHBA with any further questions or concerns.