

LEGISLATIVE REVIEW
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STATE BUDGET SIGNED BY GOVERNOR WITH TAX CHANGES

On Sunday, June 30, Gov. Kasich signed House Bill 59, the budget bill for the 2014-2015 biennium. While a few minor items were deleted from the bill through the exercise of his line item veto, significant tax changes remained in the bill.

In sum, changes to tax provisions included the reduction in personal income taxes on individuals and businesses, a quarter percent increase in the state sales tax, elimination of the property tax rollback on new levies, and exemption changes impacting the commercial activity tax and other areas of the code. Further details can be found below.

The package had been adjusted somewhat before its adoption by the Conference Committee, and passage by the House and Senate.

- Instead of reducing the minimum CAT tax threshold for small businesses from \$1 million to \$500,000 in gross receipts, the final version retains the \$1 million threshold, for which \$150 a year is due, and applies a "variable" minimum tax to others with higher incomes. Under the new system, the minimum tax for businesses between \$1-2 million is \$800; from \$2-4 million is \$2,100; and from \$4 million and above is \$2,600.
- All personal income tax rates are reduced by 10 percent over three years. For tax years beginning in 2013, rates are reduced 8.5 percent. For tax years beginning in 2014, the reduction in rates is 9 percent compared to existing rates. For tax years beginning in 2015 and thereafter, the full reduction of 10 percent is in place.
- The package includes a PIT exemption of 50% for the first \$250,000 of small business income. This deduction is effective for the 2013 tax year.
- Increases the state sales tax by 0.25%, from 5.5 percent to 5.75 percent. The rate increase will be effective September 1, 2013.
- Includes the elimination of the 12.5% property tax rollback on new local levies. With respect to new or replacement levies imposed after August 2013, the 10 percent property tax rollback for residential and agricultural property provided by R.C. 319.302 is eliminated. The additional 2.5 percent exemption for owner-occupied residential property is also eliminated. Existing and renewal levies will not be affected and remain subject to the 12.5 percent reduction; such levies are referred to as "qualifying levies" in the bill. These changes are effective with the 2014 calendar year.
- Currently R.C. 323.152 provides a homestead exemption of 2.5 percent for owner-occupied residential property owners who are totally disabled or at least 65 years old. This credit applies regardless of the owner's income level. Persons who currently qualify for the exemption will be unaffected, but the bill changes the credit so that persons who are not yet old enough to qualify for the credit will be means-tested when they attain age 65. Owners with annual incomes above \$30,000 will not be eligible for the exemption. These changes are also effective with the 2014 calendar year.