

OHIO HOUSE PASSES STATE BUDGET AND SENDS TO SENATE FOR CONSIDERATION

This week the Ohio House of Representatives finished up their work on the proposed two year state budget bill ("H.B. 64") and passed the baton to the Ohio Senate. However, the House's work was far from a stamp of approval of the Governor's original proposal. They left their mark by revamping or removing most of Governor John Kasich's tax proposals, as well as making changes to school funding and tweaking many other programs and dollar allocations.

As you'll remember, Governor Kasich proposed some sweeping tax shifting, or as he referred to it, tax reform. Included in his proposed budget were tax increases FOR the commercial activity tax ("CAT"), tobacco and e-cigarettes, severance tax on oil and gas, and the sales tax rate, as well as applying the sales tax to several services. On the flip side, he proposed lowering the personal income tax ("PIT") rate and income taxes on small businesses.

As the House began to dive into the work on H.B. 64, it became apparent that not many republicans or democrats supported the Governor's plan. The House Finance Committee heard witness after witness, from all spectrums of interest groups, detailing how the tax shifting in the proposed budget would hurt most Ohioans, including businesses.

Before voting on H.B. 64, the House Finance Committee accepted many changes to the bill. Under the leadership of Speaker Cliff Rosenberger and Chairmen of both the Finance Committee and the Ways & Means Committee (led by Reps. Ryan Smith and Jeff McClain respectively), all of the Governor's proposed BUSINESS tax increases were removed from the bill. However, the Committee did include a reduction in the PIT. While it does not go as far as the proposed cut, it does reduce the top rate to under 5% which has been a major goal of Governor Kasich's.

H.B. 64 is now a \$131.6 billion dollar budget package, which includes \$71.6 billion in general revenue appropriations. In addition to removing all tax increase, the House also made changes to school funding and health care. It also left intact Medicaid expansion and the funding for it. Major provisions included are:

- A 6.3% across the board PIT cut, lowering the top rate to just below 5% which will become effective at the beginning on 2016;
- Increases and makes permanent the 75% small business tax deduction on the first \$250,000 of Ohio small business income;
- Adds \$179 million in K-12 funding, ensuring school districts remain at the same funding level as in fiscal year 2015;
- Adds an additional \$102 million to help offset the current phasedown of state reimbursements for the lost revenue from the tangible personal property tax and the kilowatt hour tax; and
- Includes \$1.25 million for the Secretary of State to mail absentee ballot applications to voters during the 2016 presidential election.

Much to the ire of House Democrats, the bill retained several provisions relating to labor relations and contracts. In fact, many Democrats praised most of what was included in H.B. 64, but most of the caucus still voted against it due to these specific proposals, which include:

- Language that prohibits a state agency from requiring a contractor to enter into a project labor agreement;
- A provision that limits the ability of community correctional facilities' employees to collectively bargain for benefits and salaries; and
- Authority to allow for the privatization of adult protective services.

In the end, H.B. 64 passed the House 63-35 mostly along party lines, but with some defectors from both caucuses. One main opponent to the House version of the state budget bill is Governor Kasich. His spokesperson has indicated that he is "troubled" and believes that the House's "rejection of tax reform is a missed opportunity that, if allowed to remain, would erode our improving economic climate".¹

While the House's work is finished for now, the bill moves over to the Ohio Senate for its consideration. Senate President Keith Faber has indicated that unlike previous years, H.B. 64 will actually be referred to three different standing committees that will all have the ability to make changes to the language. In addition to the Finance, Medicaid, and Ways & Means Committees, the Finance Subcommittees will also hold hearings and play a large part in the Senate process. Additionally, President Faber has indicated that while the House-passed version will be the vehicle that the Senate uses for its work, the Senate will essentially be starting at \$0 to craft its version of the state's two year budget. This means that interest groups will not only have to testify about what they'd like to see in the bill, but also what they don't want to see it in.

By law, the budget bill must be enacted by midnight on June 30th for the start of the new fiscal year on July 1st. That leaves roughly two months for the Senate to complete its work and for a conference committee to be held between the two chambers so they can hammer out their differences. While we don't know what the Senate is planning on doing just yet, we do know that the two chambers will have different takes on what should be included in the state's budget, both on spending and revenues. And we can't forget that Governor Kasich will have his line-item veto pen ready once the budget is sent back to him in its final form!

If you would like to better understand H.B. 64, please contact Charlotte B. Hickcox, Director of Government Affairs at (614) 349-4819 or chickcox@zhftaxlaw.com, or one of the other ZHF professionals listed below.

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