Tax Committee
February 20, 2014

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2014 Tax Committee Calendar
Meetings will begin at 10:00 a.m.

Thursday, February 20, 2014
Tuesday, May 20, 2014
Wednesday, November 19, 2014

OMA Tax Committee Meeting Sponsor:

OMA Tax Policy Committee

February 20, 2014

AGENDA

Welcome & Self-Introductions:	Allan Thompson, Chairman A K Steel Corporation
Discussion	House Bill 375 MBR CAT Rumors
Guest Speaker	Randy Cole Office of Budget and Management
Discussion	Unemployment Compensation
OMA Counsel's Report	Mark Engel Bricker & Eckler
OMA Public Policy Report	Rob Brundrett OMA Staff

Please RSVP to attend this meeting (indicate if you are attending in-person or by teleconference) by contacting Denise: dlocke@ohiomfg.com or (614) 224-5111 or toll free at (800) 662-4463.

Additional committee meetings or teleconferences, if needed, will be scheduled at the call of the Chair.

Thanks to Today's Meeting Sponsor:

Randy Cole

Randy serves as Controlling Board President and Policy Advisor to Office of Budget and Management (OBM) Director Tim Keen. In addition to controlling board duties, he coordinates shared services and government reform initiatives for Governor John Kasich's administration, including leading the team that developed "*Beyond Boundaries- A Shared Services Action Plan for Ohio Schools and Governments*". In March 2013*, Government Technology* magazine and the Center for Digital Government named Randy as one of the nation's Top 25 Doers, Dreamers & Drivers of 2013.

He is the OBM designee to:

- The Ohio Turnpike Commission
- The MARCS Steering Committee (the statewide emergency radio system)
- The OAKS Steering Committee (The state ERP)
- The Local Government Innovation Council (Overseeing $45 million to support efficiency and collaboration in schools and local governments)
- The Governor's Office of Health Transformation Program Office (as an advisor for shared services and system delivery transformation in health and Human Services)
- The Technical Standards Sub-committee of the Statewide Next Generation 9-11 Steering Committee.

Most recently, he served for two years as Director of Audit Services and Technology for Auditor of State Mary Taylor. He supervised Local Government Services (LGS), the Performance Audit Section, and Information Technology Section, including the Uniform Accounting Network (UAN).

Prior to his latest government service, Cole worked as a sales and marketing executive at FirstEnergy Corporation and served as President of a technology company that specialized in online application development for government clients.

Randy began his career in the Ohio Statehouse in 1989 as an LSC intern then served as a budget analyst for the Ohio Senate before working in Summit County government for Six years.

Randy has a Bachelor of Science Degree in Public Policy Management from the University of Akron and completed graduate coursework at the John Glenn School at The Ohio State University. Randy is also a graduate of Leadership Akron and Leadership Ohio.

He and his wife, Cyndra reside in Akron with their four children.

About the Controlling Board: The Controlling Board provides legislative oversight over certain capital and operating expenditures by state agencies and various other state fiscal activities. The seven-member board meets approximately every two weeks to consider requests submitted by state agencies and universities. The board consists of: the President, the chairs of the House and Senate Finance Committees, two members of the House appointed by the Speaker of the House, and two members of the Senate appointed by the President of the Senate.

OBM

February 11, 2014

MEMORANDUM TO: The Honorable John R. Kasich, Governor
The Honorable Mary Taylor, Lt. Governor

FROM: Timothy S. Keen, Director TK

SUBJECT: Monthly Financial Report

ECONOMIC SUMMARY

Economic Performance Overview

- Real GDP expanded at an annual rate of 3.2% in the fourth quarter, down from the 4.1% rate in the third quarter. Year-over-year growth was 2.7%. Forecasters estimate that growth is slowing further in the first quarter, but anticipate a gradual recovery to near 3.0% or higher by the end of the year.
- U.S. employment increased by 113,000 jobs in January. The unemployment rate decreased to a new low for the expansion of 6.6%.
- Ohio employment increased by 5,000 jobs in December, and the November decrease was revised to be smaller. The Ohio unemployment rate decreased to 7.2% in December.
- Leading economic indicators remain consistent with uninterrupted growth at a modest pace across the country and in Ohio.

Economic Growth

Real GDP expanded 3.2% in the fourth quarter, following a 4.1% increase in the third quarter. Growth approximately doubled from 1.8% in the first half of 2013 to 3.7% in the second half. The second-half growth rate was the second strongest half-year of the current expansion, following the period that ended in the first quarter of 2012. Compared with a year earlier, real GDP was higher by 2.7%, the best result since the third quarter of 2012.

Although growth decelerated from the third quarter to the fourth, the fact that fourth quarter growth was still above 3 percent was encouraging because the third quarter growth relied heavily on inventory buildup. This had caused many analysts to fear that fourth quarter growth would be considerably weaker, but that did not occur.

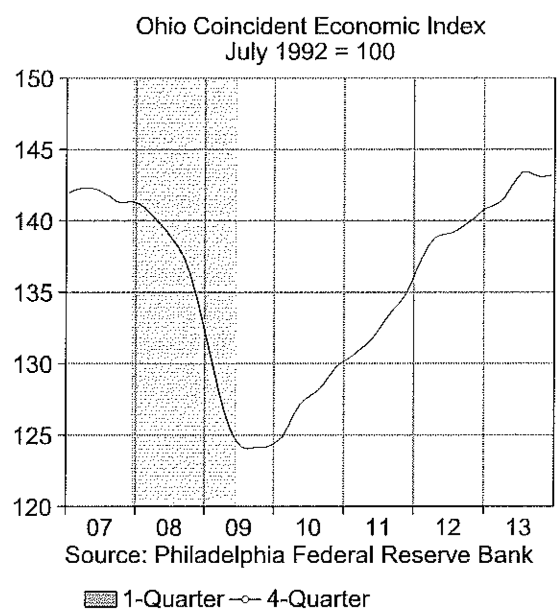
Since the expansion officially began in the second quarter of 2009, real GDP has advanced at an annual rate of 2.4% – the slowest pace during the first eighteen quarters of any expansion that has lasted at least that long during the post-war period. In contrast, real GDP grew at a compound annual rate of 3.2% on average during the first eighteen quarters of the expansions following the 1990-91 and 2001 recessions. The performance of final sales, calculated by excluding the change in inventories from GDP, during the current expansion has been even weaker, with growth of only 1.9%, compared with approximately 3.0% during the previous two expansions.

Growth in the fourth quarter was driven by personal consumption expenditures, exports, investment in nonresidential structures, private inventory investment, and state and local government spending. Federal government spending and investment in residential structures subtracted from overall GDP growth. Imports, which are subtracted from other components of GDP to arrive at the total, increased.

The **deceleration in fourth quarter** real GDP primarily resulted from the deceleration in private inventory investment, the larger decrease in federal government spending, the downturn in investment in residential structures, and the deceleration in state and local government spending, the slowdown in imports, and the decelerations in state and local government spending and nonresidential fixed investment. Faster growth in exports and personal consumption expenditures and the deceleration in imports partially offset the effects of slower growth in other categories.

Leading indicators remain consistent with uninterrupted growth into 2014. The 4-week moving average of **ECRI's Weekly Leading Index** increased during the week of January 24 for the fifth week in a row. Recent strengthening in the index has lifted the smoothed rate of change to 4.3% from 1.7% just four weeks ago. The index clearly remains consistent with continued economic growth.

At the same time, the composite **Leading Economic Index** from the Conference Board has remained solid. The index managed a small 0.1% increase in December, but increased at an annual rate of 7.0% during the last half of 2013. Five out of the ten components made positive contributions during December. The strongest contributions came from the interest rate spread, the leading credit index and the ISM new orders index. The recent gains in the index resulted in a smoothed rate of change of 5.8% in December – down from a spike up to 6.5% in November, but up from the trough of 1.2% in August 2012.



The Ohio economy has slowed in recent months, according to the **Ohio Coincident Economic Index**, compiled by the Federal

Reserve Bank of Philadelphia. The index edged higher by just 0.1% in December after no change in November and declines of 0.1% each in September and October. The state coincident index combines four state-level indicators to summarize current economic conditions. The four components are nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate and real wage and salary disbursements.

Across the 50 states, the Coincident Economic Index was higher than one month earlier in 41 states, up from 37 states in July. The index also was higher than three months earlier in 46 states – up from 40 states in July. The diffusion of increases and decreases across states in the past has been a reliable and timely indicator of turning points in the business cycle, and continues to suggest uninterrupted growth in the national economy, and thus also in the Ohio economy.

The companion **Ohio Leading Economic Index** stayed in the sub-1.5% range for the seventh month in a row in December. The index, which is compiled by the Federal Reserve Bank of Philadelphia, is designed to predict the rate of increase in the coincident index during the next six months. The index registered its first negative reading (-0.2%) since the recession in August, and then improved to +0.5% in September and +1.2% in October before settling to +1.0% in November and +0.8% in December. Index values have been revised significantly on occasion, but as it stands the recent pattern is consistent with ongoing expansion of the Ohio economy through the winter and spring but at the recent moderate pace.

The **Ohio Leading Indicator** from the Ohio Bureau of Labor Market Information tells a similar story for Ohio. For the fourth month out of the last five, the index was unchanged. It was higher by only 0.6% from six months earlier, compared with a 1.7% increase during the previous six-month stretch. Compared with a year earlier, the indicator was higher by 1.2% in November.

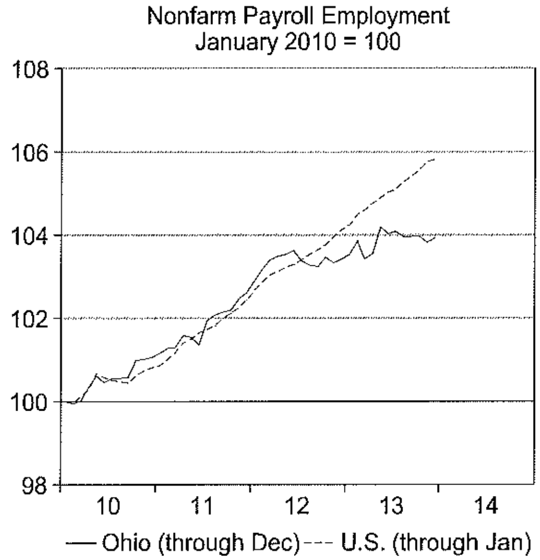
The diffusion of positive readings in the individual leading indexes from the Federal Reserve Bank of Philadelphia across states remained high. The leading index was negative for only three states in December, down from an expansion-high of nine states in May. The number of states with negative readings last increased to double-digits in May 2007 – seven months prior to the onset of the last recession – so, the breadth of increases across states strongly suggests continued expansion in the national economy at least in the near term.

The economy in and around Ohio continued to expand at a moderate pace during the six weeks ended in mid-January, according to a survey by the Federal Reserve Bank of Cleveland. Most of the respondents reportedly had a positive outlook for 2014 and expected demand to remain at current levels or increase.

The consensus among forecasters is that real GDP will slow in the first half before picking up steam heading into late 2014 and early 2015. IHS Global Insight projects that real GDP is expanding at slightly less than 2.0% in the current quarter and will speed up to just over 3.0% by year end. In addition, the forecasting firm projects growth from the fourth quarter of 2014 to the fourth quarter of 2015 of approximately 3.5%.

Employment

Labor markets continued to improve at a modest pace in January. **Total nonfarm payroll employment** increased by 113,000 jobs in January, compared with a consensus forecast of approximately 180,000. The December change was revised higher by only 1,000 workers to 75,000, but the November change was revised upward by 33,000 workers to an increase of 274,000. Weather reportedly was a major factor holding back job gains in December, but was supposedly less of a factor in January.



The average increase in payrolls of 94,000 during December and January compared with average monthly job growth of approximately 200,000 during the past year. During the last twelve months, total payrolls increased by 2.238 million jobs, or an average of 187,000 jobs per month. Interpretation of the recent trend remains somewhat clouded by the temporary exit in October and return in November of furloughed federal government workers and the onset of harsh weather across much of the country in December that lasted into January.

The **unemployment rate** decreased to 6.6% in January from 6.7% in December. That marks the lowest level for the unemployment rate since October 2008 – at the inception of the financial crisis. The broadest measure of unemployment – the so-called U-6 unemployment rate – decreased to 12.7% in January – the lowest level since November 2008.

Job gains were concentrated in construction (+48,000), professional and business services (+36,000), and manufacturing (+21,000). Employment decreased in federal, state and local government (-29,000) and retail trade (-13,000).

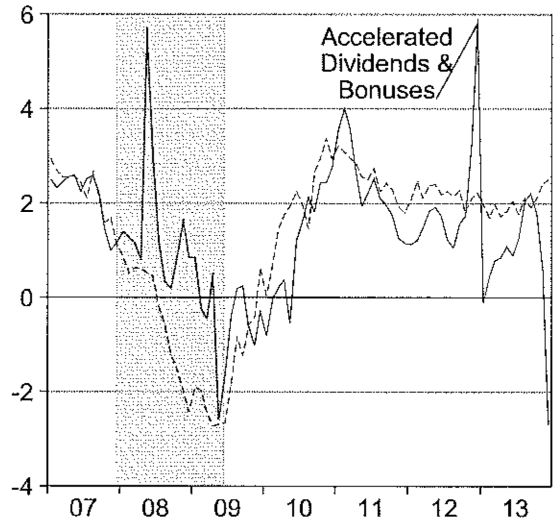
Ohio total nonfarm employment increased by 5,000 jobs in December, largely recouping the decrease of 7,000 in November. Private sector job growth was slightly stronger, at 5,400 jobs. The December change brought the total employment increase for the year to +25,600 jobs. Private sector job growth for the year was 35,100 jobs. Employment growth has slowed notably in recent months, largely reflecting weakness in the government, information, financial activities and construction sectors. The strongest growth in employment has occurred recently in educational and health services, professional and business services, the trade, transportation and utilities sector, and leisure and hospitality.

The **Ohio unemployment rate** decreased in December to end the year at 7.2% – the lowest since last July. The rate is up 0.5 percentage points since the low for the cycle of 6.7% that was reached last December.

Consumer Income and Consumption

Households increased spending by a bit more than income again in December and made up the difference by saving less out of current income. **Personal consumption expenditures** increased 0.4%, whereas **personal income** was flat in December. The saving rate dipped to 3.9% of disposable income from 4.3% the month before and 5.1% as recently as September. Compared with a year earlier, income was down 0.8% and consumption was up 3.8%.

Real Income and Consumption
12-Month % Change



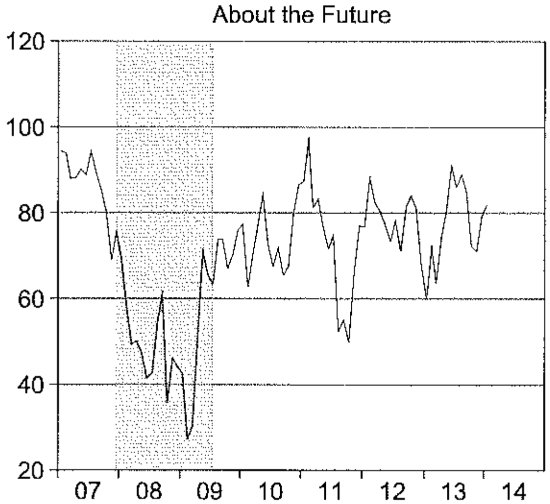
— Real Disposable Personal Income
--- Real Personal Consumption Expenditures

As shown in the chart below, growth in real income and consumption has diverged in recent months with spending growth picking up and income growth trailing off. The large decline in real disposable income on a year-over-year basis in December is the result of the steep temporary jump in December 2012 prompted by taxpayer actions to avoid possible or actual tax increases that started in 2013.

Real consumer spending growth in the fourth quarter was the fastest in three years. Spending on services and non-durable goods was particularly strong, despite the weakness in consumer confidence in September and October.

Retail sales at the start of the holiday shopping period in and around Ohio were above year ago levels, according to the Fed survey. Sales of electronics, cold weather apparel and footwear were especially brisk. Some retailers reported a softening in sales during the course of December. Promotions were reportedly higher than normal for this time of year. Sales of new motor vehicles are expected to be strong in 2014, but not to increase by as much as in 2013.

Consumer Confidence
About the Future



Source: The Conference Board

Consumer confidence recovered nicely in December and largely held its ground in January. The Conference Board measure is not quite back to its June high due to the incomplete rebound in expectations, but the assessment of current conditions is the best since before the financial crisis hit in 2008. The Reuters/University of Michigan survey has followed a similar pattern.

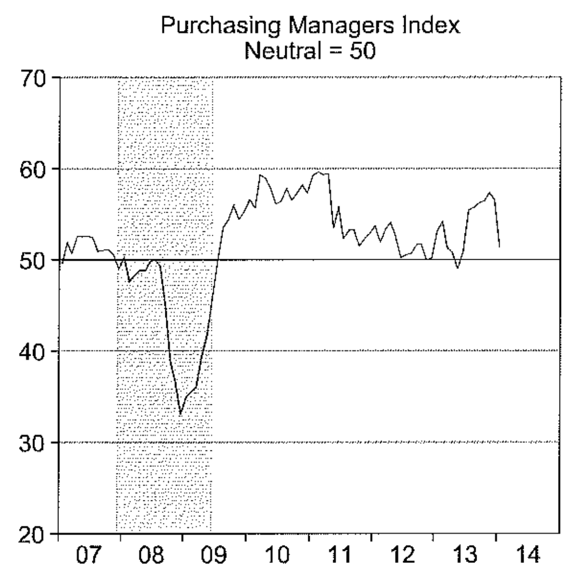
Manufacturing

Industrial production tacked 0.3% in December onto the 1.0% gain in November. The November increase reflected harsher than normal weather, which boosted utility output, but the December increase was due to broad-based increases across industries in manufacturing, which increased 0.4%. Mining output increased 0.8%, as activity further recovered from October storm shutdowns. Utility output increased 3.0%, reflecting the early arrival of cold weather. Compared with a year earlier, industrial production was higher by 3.2% and manufacturing output was higher by 2.6%. Capacity use increased to 79.2% – the highest since May 2008. In manufacturing, capacity use increased to 77.2% – the highest since March 2008.

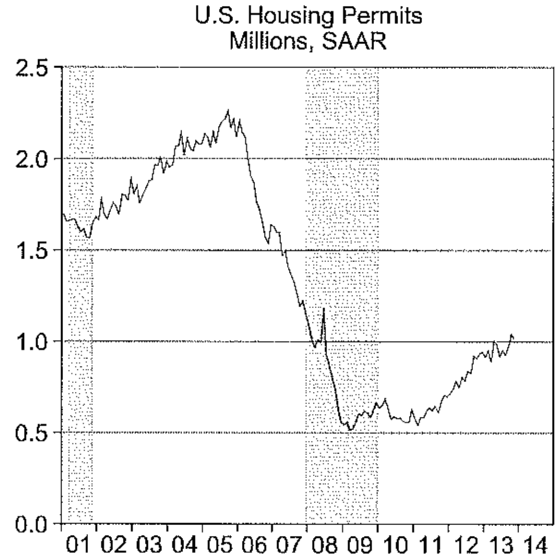
Of particular importance to the Ohio economy, motor vehicle assemblies increased 2.3% to a seasonally adjusted annual rate of 11.5 million units in December – about 830,000 units above the average during the previous twelve months. Production across other industries that are important to Ohio was mixed. Production of **primary metal** increased by 1.4% in December, production of **fabricated metal** decreased 0.5%, and production of **machinery** decreased 1.9%. Together with the motor vehicle industry, these three industries account for almost one-half of manufacturing jobs in Ohio and approximately one out of every thirteen private sector jobs in the state, before seasonal adjustment.

Factories in and around Ohio reported that demand continued at a moderate to robust level during the month and a half ending in mid-January, according to the Federal Reserve Bank of Cleveland survey. The strongest activity was reported by suppliers to the aerospace, housing, motor vehicle, and oil and gas industries. Defense contractors expect that the recently enacted federal budget will boost activity in the year ahead. Steel producers reported stable to slowly increasing shipments, primarily due to demand from the transportation and oil and gas industries. Defense orders remained weak.

As a counterpoint to the recent upturn in manufacturing activity, the **Purchasing Managers' Index** moved sharply lower in January, although it remained just above the neutral level of 50 for the eighth straight month. The composite index edged fell to 51.3 from 56.5, and the new orders and production indexes decreased from 64.4 to 51.2 and from 61.7 to 54.8, respectively. The commentary from purchasing managers who responded to the survey included many references to the harsh weather, so perhaps this result is artificially low.



Construction



Construction put-in-place inceased by 0.1% in December. The weak month followed growth at a 9.3% annual pace during the three previous months. From the low point in February 2011, construction spending has increased 23.4%, or at an annual rate of 7.7% during the 34 months ending in December 2013. Despite this gain, the pace of construction remains 23.3% below the monthly peak reached in March 2006.

Compared with a year earlier, total construction put-in-place was higher by 7.2% in December. Private construction was up 10.8%, while public construction was essentially flat. Propelled by both single-family and multi-family categories, private residential construction was higher by 24.9%. Nonresidential construction decreased 1.7% from December 2013, held back by power (-25.7%), communication (-13.0%) and religious (-6.5%). Lodging (+32.7%), transportation (+24.3%), and commercial (+227%) were the fastest growers.

Housing starts were strong again in December, lifting the 3-month moving average 4.4% for the month after an 8.4% increase the month before. Across the Midwest, starts fell by 3.1%, but the decline was entirely due to a decrease in multi-family starts. Single family starts in the Midwest increased by 5.3% on top of a 5.6% increase in November.

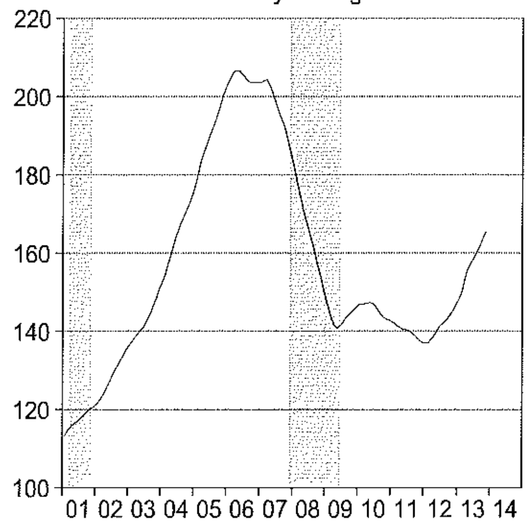
Housing permits were essentially flat across the country and down in the Midwest. U.S. permits increased 0.6% in December on a 3-month moving average basis to 9.4% above the year earlier level. The year-over-year rate of change was 31.8% in January 2013. Total permits fell 7.6% in the Midwest, with single family permits down 3.2%.

Homebuilders in and around Ohio reported starts of both single family and multi-family homes at a robust pace, according to the Federal Reserve of Cleveland. The strongest activity seems to have occurred for higher priced homes; relatively few starter homes were reportedly under construction. The inventory of improved lots was reported to be low.

Existing home sales decreased across the country and in the Midwest for the third month in a row on a 3-month moving average basis. Nationally, sales fell 2.8% in December after a 3.6% decrease in November. In the Midwest, sales fell 3.6% in December after a 4.2% decrease in November. The **inventory of existing homes for sale** remained low in December. Available existing homes for sale decreased to 1.86 million units – the lowest since January 2013 and only 4.6 months of supply at the current pace of sales. The **inventory of new homes for sale** increased slightly in absolute terms and increased to 5.0 months of supply.

Home prices increased for the twenty-second straight month in November, according to the S&P/Case-Shiller Index of prices in 20 major markets. The index was 13.8% above its year ago level and 20.8% above its recession trough, but remained 19.9% below the peak reached in April 2006. Home prices in Cleveland increased 1.2% in November, marking – in combination with solid increases in September and October –a significant upturn from a flat pattern for a number of months. Cleveland home prices are 6.0% higher than a year earlier, but remain 13.2% below the peak reached in January 2006.

S&P Case/Shiller Home Price Index
20-City Average



REVENUES

January **GRF receipts totaled $3,108.1 million** and were $344.4 million (12.5%) above the estimate. Monthly tax receipts totaled $2,129.2 million and were $179.7 million (9.2%) above the estimate, while non-tax receipts totaled $978.9 million and were $164.8 million (20.2%) above estimate. Variances for the fiscal year to date by category are provided in the following table ($ in millions).

Category	Includes:	YTD Variance	% Variance
Tax receipts	Sales & use, personal income, corporate franchise, financial institutions, commercial activity, MCF, public utility, kilowatt hour, foreign & domestic insurance, other business & property taxes, cigarette, alcoholic beverage, liquor gallonage, & estate	$186.1 million	1.6%
Non-tax receipts	Federal grants, earnings on investments, licenses & fees, other income, intrastate transfers	$150.4 million	2.8%
Transfers	Budget stabilization, liquor transfers, capital reserve, other	$46.3 million	723.9%
TOTAL REVENUE VARIANCE:		$382.8 million	2.2%

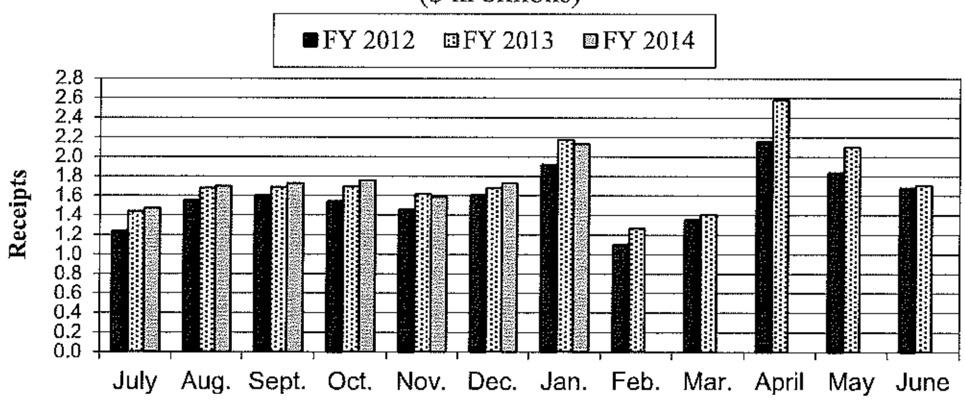
On a year-over-year basis, monthly receipts were $258.5 million (9.1%) more than they were in January of the previous year, primarily as a result of a $313.2 million (47.8%) year-over-year increase in federal grants. Despite a large gain in non-auto sales and use tax receipts, which collected $101.9 million (14.9%) more than in the same month last year, total tax receipts were $44.7 million (2.1%) below last year's collections for January. The decline in tax receipts can be mostly attributed to a large decline in personal income tax receipts of $173.0 million (14.0%) as compared to last year's total for January. This is largely the impact of the 9% cut in withholding rates implemented in September 2013, and the first impacts of the 2013 tax rate cuts (8.5%) and the small business deduction (50%). As planned, there were no liquor profits transfers this month, since the liquor enterprise and its profits have been leased to JobsOhio.

GRF Revenue Sources Relative to Monthly Estimates – January 2014
($ in millions)

Individual Sources Above Estimate		Individual Sources Below Estimate	
Non-Auto Sales and Use Tax	$17.2	Auto Sales and Use Tax	($3.0)
Personal Income Tax	$188.2	Financial Institutions Tax	($32.8)
Corporate Franchise Tax	$13.3	Commercial Activity Tax	($6.7)
MCF Tax	$1.1	License & Fees	($2.8)
Federal Grants	$167.1	ISTV's	($1.2)
Earnings on Investments	$2.2		
Other Sources Above Estimate	$2.7	Other Sources Below Estimate	($0.8)
Total above	**$391.7**	**Total below**	**($47.3)**

(Note: Due to rounding of individual sources, the combined sum of sources above and below estimate may differ slightly from the total variance.)

Tax Revenue Comparison by Month
($ in billions)



Non-Auto Sales and Use Tax

January non-auto sales and use tax receipts totaled $788.1 million and were $17.2 million (2.2%) above the estimate. This surplus was nearly equal to the shortage in December. Thus, year-to-date collections improved somewhat, yet remain below estimate by $10.2 million (0.2%). On a year-over-year basis, January 2014 receipts were $101.9 million (14.9%) above the $686.2 million collected in January 2013. The size of the annual year-over-year increase was in part due to the base and rate changes enacted in H.B. 59 (the state tax rate has been 4.5% higher than it was since September, which has since boosted collections). Higher collections from Medicaid health insuring corporations (MHICs) have also played a part, as Medicaid spending for certain categories of cases have begun to shift to managed care capitation payments subject to the sales tax.

Auto Sales Tax

January auto sales tax revenues fell short of the estimate for the second time this fiscal year, (having also missed the estimate in November) as receipts totaled \$89.7 million and were \$3.0 million (3.2%) below the estimate. Year-to-date collections remain above estimates by \$21.9 million (3.3%), despite the slowdown in January, which could be attributable to extreme winter conditions. On a year-over-year basis, monthly receipts were \$3.3 million (3.8%) higher than receipts for the same month in the previous year, while year-to-date receipts for the first half of the fiscal year were \$61.7 million (10.0%) above those for the same period in the prior fiscal year. As mentioned in the non-auto sales tax section, this year-over-year increase is partly due to the rate changes enacted in H.B 59.

Personal Income Tax

January personal income tax receipts totaled \$1,062.5 million and were \$188.2 million (21.5%) above the estimate. The majority of this overage was due to lower-than-expected refunds, which is likely tied to a delay in the beginning of the filing season by the IRS. The IRS didn't begin accepting tax returns until January 31st, which likely resulted in delayed filings at the state level as well. January refunds totaled \$67.1 million and were \$116.1 million short of the estimate of \$183.2 million - a shortfall of 63.4%. This situation is expected to be resolved as the tax filing season unfolds in the coming months, thus bringing refunds more in line with estimates.

Quarterly estimated payments also contributed to the overage in January. Receipts for this component totaled \$345.6 million, which exceeded the estimate by \$72.4 million (26.5%). There is not enough information to determine the reason for this overage at present. It is possible that this could be partially due to unanticipated growth in non-wage income such as dividends and capital gains. On the other hand, it is also possible that the overage is due, in part, to the timing of the impact of the new income tax deduction for small business income and/or the overall rate cuts (enacted in H.B. 59 of 130th G.A.) being different than what OBM estimated. OBM estimated the impact of the rate cuts and the deduction on different categories of payments such as estimated payments, annual returns, and refunds based on the experience with analogous tax cuts at the federal level and in other states, but these estimates were understood to be subject to substantial uncertainty. Taxpayers may not have reduced their estimated payment to reflect their tax savings from the deduction or the rate cuts to the extent anticipated. As a result refunds could be larger than estimated in the coming months as taxpayers file their annual returns. Unfortunately, it will be difficult to judge whether this is the case until much later in the income tax filing season.

The payments associated with annual returns were another component with a positive overage in January. Receipts totaled \$33.2 million and were \$21.5 million (183.7%) above the estimate.

The withholding component continued its shortfall for the third consecutive month. Receipts totaled \$761.5 million and were \$19.0 million (2.4%) below the estimate of \$780.5 million. The year-to date variance vs. estimate for this component is now -\$0.7 million (0.0%).

On a year-over-year basis, January personal income tax receipts were $173.0 million (14.0%) below the January 2013 level. The quarterly estimated payments component was the main source of this slack with receipts that were $90.0 million (20.7%) below the same month a year ago. Year-to-date, personal income tax receipts for the first seven months in fiscal year 2014 exceeded the estimate by $234.3 million (4.6%) but were lower by $178.5 million (3.2%) than the level in the corresponding period of fiscal year 2013. Collections are lower than the year before primarily due to the tax rate cuts and new small business deduction enacted for tax year 2013 by the current operating budget bill (HB 59). As mentioned in the economic overview, there is also the impact from the acceleration of income into tax year 2012 to avoid federal tax increases, which boosted FY 2013 income tax revenues but also acts to depress FY 2014 growth.

FY2014 PERSONAL INCOME TAX RECEIPTS BY COMPONENT ($ in millions)

	ESTIMATE JAN	ACTUAL JAN	$ VAR JAN	ESTIMATE Y-T-D	ACTUAL Y-T-D	$ VAR Y-T-D
Withholding	$780.5	$761.5	($19.0)	$4,677.8	$4,677.1	($0.7)
Quarterly Est.	$273.2	$345.6	$72.4	$781.6	$836.4	$54.8
Trust Payments	$13.8	$10.8	($3.0)	$28.8	$24.0	($4.8)
Annual Returns & 40 P	$11.7	$33.2	$21.5	$159.5	$190.5	$31.0
Other	$7.8	$8.1	$0.3	$68.1	$55.6	($12.5)
Less: Refunds	($183.2)	($67.1)	$116.1	($412.9)	($245.5)	$167.4
Local Distr.	($29.5)	($29.6)	($0.1)	($200.7)	($201.6)	($0.9)
Net to GRF	**$874.3**	**$1,062.5**	**$188.2**	**$5,102.2**	**$5,336.5**	**$234.3**

Corporate Franchise Tax

As noted in previous months' reports, although corporate franchise tax has been eliminated, prior year settlement activity continues, and has resulted in receipts of $13.3 million in January, while the estimate for the tax was zero. Small amounts of settlement activity and refunds are likely to occur in the months ahead. On a year-over-year basis, January 2014 receipts for this tax source were $14.8 million (52.7%) below those of January 2013.

Financial Institutions Tax

January was the first month of collections for the new financial institutions tax. Receipts totaled $41.2 million and were $32.8 million (44.4%) below the estimate. This variance is likely attributable to the due date of the tax being January 31st and the posting of payments expected in January occurring in early February. Based on results seen early in the month of February, OBM expects combined collections for January and February to at least meet the two month estimate for the tax.

Commercial Activity Tax

January GRF receipts from the commercial activity tax (CAT) totaled $29.5 million and were $6.7 million (18.5%) below the $36.2 million estimate. Year-to-date GRF CAT receipts totaled $418.1 million and were $35.8 million (7.9%) below estimate.

All-funds CAT receipts for January (net of refunds) totaled $68.3 million and were $4.7 million below the $73.0 million estimate. All-funds receipts for the year-to-date totaled $879.9 million and were $82.8 million (8.6%) below the estimate.

Year-to-date, GRF CAT receipts have decreased by $12.1 million (2.8%), while all-funds CAT receipts are $8.5 million (0.7%) above the same point in fiscal year 2013. The explanation for the decline in GRF receipts, while all-funds revenues have grown, is that starting with November, some CAT receipts are being deposited in the new motor fuel fund. Thus, the 50% share of CAT revenues going to the GRF is being calculated against a smaller base that excludes motor fuel related collections ($25.8 million year-to-date).

Kilowatt-Hour Tax

January kilowatt hour tax receipts totaled $26.0 million and were $0.9 million (3.6%) above estimate for the third month in a row. Year-to-date collections continued to improve from earlier in the year yet still were below the estimate by $7.6 million (4.2%). On a year-over-year basis, this tax source was $2.3 million (9.7%) above the January 2013 level. This month's surplus may reflect heightened demand for energy following more extreme winter conditions.

Cigarette Tax

Cigarette tax receipts for the month of January totaled $67.6 million, slightly exceeding the estimate of $67.2 million. On a year-over-year basis, January 2014 cigarette tax receipts were $2.7 million (3.9%) below the level for the same month of the previous fiscal year. Year-to-date, the collection for the first seven months of FY 2014 has exceeded the estimate by $3.5 million (0.8%), and was marginally higher by $0.02 million (0.0%) than the level in the corresponding period of fiscal year 2013.

GRF non-tax receipts totaled $978.9 million in January and were $164.8 million (20.2%) above estimate. Nearly all of the variance can be attributed to Medicaid revenue received under the federal grants line. Medicaid revenue exceeded the estimate by $167.1 million for the month. Adjustments for past periods more than offset shortfalls due to Medicaid underspending. Also contributing to the positive variance in January were earnings on investments that totaled $4.7 million and exceeded the estimate by $2.2 million (87.0%). On a year-over-year basis, January non-tax receipts were $313.6 million (47.1%) higher than January 2013. There were no **GRF transfers** for January. Year-to-date, transfers total $52.7 million and are $46.3 million (723.9%) above estimates, mostly due to November's transfer back of $34.6 million in CAT revenue into the GRF, following the determination that the original fiscal year 2013 transfer of revenue from the GRF to the motor fuel fund had been too high. This reconciliation, required by statute, was made once actual tax return date became available.

Table 1
GENERAL REVENUE FUND RECEIPTS
ACTUAL FY 2014 VS ESTIMATE FY 2014
($ in thousands)

	MONTH				YEAR-TO-DATE			
REVENUE SOURCE	**ACTUAL JANUARY**	**ESTIMATE JANUARY**	**$ VAR**	**% VAR**	**ACTUAL Y-T-D**	**ESTIMATE Y-T-D**	**$ VAR**	**% VAR**
TAX RECEIPTS								
Non-Auto Sales & Use	788,145	770,900	17,245	2.2%	4,711,104	4,721,300	(10,196)	-0.2%
Auto Sales & Use	89,747	92,700	(2,953)	-3.2%	679,285	657,400	21,885	3.3%
Subtotal Sales & Use	877,893	863,600	14,293	1.7%	5,390,389	5,378,700	11,689	0.2%
Personal Income	1,062,453	874,300	188,153	21.5%	5,336,534	5,102,200	234,334	4.6%
Corporate Franchise	13,307	0	13,307	N/A	(5,236)	0	(5,236)	N/A
Financial Institutions Tax	41,173	74,000	(32,827)	-44.4%	41,293	74,000	(32,707)	-44.2%
Commercial Activity Tax	29,494	36,200	(6,706)	-18.5%	418,122	453,939	(35,817)	-7.9%
Public Utility	(38)	(200)	162	80.8%	48,096	46,100	1,996	4.3%
Kilowatt Hour	25,994	25,100	894	3.6%	173,941	181,550	(7,609)	-4.2%
MCF Tax	1,967	900	1,067	118.6%	20,676	17,900	2,776	15.5%
Foreign Insurance	4	200	(196)	-98.2%	146,641	142,700	3,941	2.8%
Domestic Insurance	(6)	0	(6)	N/A	98	1,000	(902)	-90.2%
Other Business & Property	0	0	0	N/A	455	0	455	N/A
Cigarette	67,593	67,200	393	0.6%	438,473	435,000	3,473	0.8%
Alcoholic Beverage	4,209	3,900	309	7.9%	32,669	32,100	569	1.8%
Liquor Gallonage	4,268	4,300	(32)	-0.7%	25,187	24,700	487	2.0%
Estate	926	0	926	N/A	30,045	21,400	8,645	40.4%
Total Tax Receipts	2,129,237	1,949,500	179,737	9.2%	12,097,384	11,911,289	186,095	1.6%
NON-TAX RECEIPTS								
Federal Grants	968,988	801,927	167,061	20.8%	5,555,133	5,373,935	181,198	3.4%
Earnings on Investments	4,675	2,500	2,175	87.0%	8,420	5,500	2,920	53.1%
License & Fees	3,194	6,000	(2,806)	-46.8%	14,053	42,000	(27,947)	-66.5%
Other Income	2,012	2,375	(363)	-15.3%	11,823	16,625	(4,802)	-28.9%
ISTV'S	1	1,250	(1,249)	-100.0%	7,741	8,750	(1,009)	-11.5%
Total Non-Tax Receipts	978,869	814,052	164,817	20.2%	5,597,169	5,446,810	150,359	2.8%
TOTAL REVENUES	**3,108,105**	**2,763,552**	**344,553**	**12.5%**	**17,694,553**	**17,358,099**	**336,454**	**1.9%**
TRANSFERS								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Liquor Transfers	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	0	200	(200)	N/A	47,215	6,400	40,815	637.7%
Temporary Transfers In	0	0	0	N/A	5,516	0	5,516	N/A
Total Transfers	0	200	(200)	N/A	52,730	6,400	46,330	723.9%
TOTAL SOURCES	**3,108,105**	**2,763,752**	**344,353**	**12.5%**	**17,747,284**	**17,364,499**	**382,785**	**2.2%**

Table 3

GENERAL REVENUE FUND DISBURSEMENTS
ACTUAL FY 2014 VS ESTIMATE FY 2014
($ in thousands)

	MONTH				YEAR-TO-DATE			
Functional Reporting Categories Description	**ACTUAL JANUARY**	**ESTIMATED JANUARY**	**$ VAR**	**% VAR**	**YTD ACTUAL**	**YTD ESTIMATE**	**$ VAR**	**% VAR**
Primary and Secondary Education	808,744	594,991	213,752	35.9%	4,390,272	3,943,186	447,085	11.3%
Higher Education	176,227	166,177	10,050	6.0%	1,210,506	1,220,247	(9,741)	-0.8%
Other Education	2,941	6,519	(3,578)	-54.9%	32,698	37,646	(4,949)	-13.1%
Medicaid	1,172,766	1,270,207	(97,442)	-7.7%	8,482,785	8,791,218	(308,434)	-3.5%
Health and Human Services	101,609	140,888	(39,279)	-27.9%	754,666	873,646	(118,981)	-13.6%
Justice and Public Protection	178,598	183,059	(4,461)	-2.4%	1,108,335	1,134,033	(25,697)	-2.3%
General Government	36,353	34,125	2,228	6.5%	215,588	230,760	(15,172)	-6.6%
Property Tax Reimbursements	(11)	22	(33)	-148.9%	893,056	903,194	(10,138)	-1.1%
Capital Outlay	0	0	0	N/A	0	0	0	N/A
Debt Service	117,664	120,066	(2,401)	-2.0%	889,564	902,199	(12,636)	-1.4%
Total Expenditures & ISTV's	**2,594,891**	**2,516,055**	**78,837**	**3.1%**	**17,977,469**	**18,036,130**	**(58,661)**	**-0.3%**
			0					
Transfers Out:								
BSF Transfer Out	0	0	0	N/A	995,930	995,930	0	0.0%
Operating Transfer Out	15	6,561	(6,545)	-99.8%	210,513	234,148	(23,635)	-10.1%
Temporary Transfer Out	0	0	0	N/A	5,516	0	5,516	N/A
Total Transfers Out	**15**	**6,561**	**(6,545)**	**N/A**	**1,211,959**	**1,230,079**	**(18,119)**	**-1.5%**
Total Fund Uses	**2,594,907**	**2,522,615**	**72,292**	**2.9%**	**19,189,428**	**19,266,209**	**(76,781)**	**-0.4%**

Table 4
GENERAL REVENUE FUND DISBURSEMENTS
ACTUAL FY 2014 VS ACTUAL FY 2013
($ in thousands)

	MONTH				YEAR-TO-DATE			
Functional Reporting Categories Description	**JANUARY FY 2014**	**JANUARY FY 2013**	**$ VAR**	**% VAR**	**ACTUAL FY 2014**	**ACTUAL FY 2013**	**$ VAR**	**% VAR**
Primary and Secondary Education	808,744	599,194	209,549	35.0%	4,390,272	3,859,007	531,265	13.8%
Higher Education	176,227	162,868	13,359	8.2%	1,210,506	1,186,083	24,423	2.1%
Other Education	2,941	4,558	(1,617)	-35.5%	32,698	32,952	(254)	-0.8%
Medicaid	1,172,766	1,031,066	141,700	13.7%	8,482,785	8,056,041	426,744	5.3%
Health and Human Services	101,609	119,646	(18,037)	-15.1%	754,666	706,686	47,979	6.8%
Justice and Public Protection	178,598	177,475	1,123	0.6%	1,108,335	1,106,091	2,244	0.2%
General Government	36,353	28,551	7,802	27.3%	215,588	205,093	10,495	5.1%
Property Tax Reimbursements	(11)	(73)	62	85.3%	893,056	871,199	21,857	2.5%
Capital Outlay	0	0	0	N/A	0	137	(137)	N/A
Debt Service	117,664	108,384	9,281	8.6%	889,564	809,150	80,414	9.9%
Total Expenditures & ISTV's	**2,594,891**	**2,231,670**	**363,222**	**16.3%**	**17,977,469**	**16,832,440**	**1,145,029**	**6.8%**
Transfers Out:								
BSF Transfer	0	0	0	N/A	995,930	235,096	760,834	323.6%
Operating Transfer Out	15	51	(35)	-69.8%	210,513	97,163	113,351	116.7%
Temporary Transfer Out	0	0	0	N/A	5,516	0	5,516	N/A
Total Transfers Out	**15**	**51**	**(35)**	**N/A**	**1,211,959**	**332,259**	**879,700**	**264.8%**
Total Fund Uses	**2,594,907**	**2,231,720**	**363,186**	**16.3%**	**19,189,428**	**17,164,699**	**2,024,729**	**11.8%**

FUND BALANCE

Table 5 describes the estimated General Revenue Fund (GRF) ending fund balance for FY 2014. Based on the estimated revenue sources for FY 2014 and the estimated FY 2014 disbursements, transfers, and encumbrances, the GRF ending fund balance for FY 2014 is an estimated $287.1 million.

The GRF ending fund balance should not be considered as a balance available for expenditure in FY 2014 nor should it be considered as equivalent to the FY 2014 surplus calculation as defined in Section 131.44 of the Ohio Revised Code.

It is important to note that the GRF ending fund balance will be impacted by any GRF expenditures or transfers that may be authorized by the General Assembly or by the Controlling Board during the course of the fiscal year.

FUND BALANCE
GENERAL REVENUE FUND
FISCAL YEAR 2014
($ in thousands)

July 1, 2013 Beginning Cash Balance	**$ 2,639,250**
Plus FY 2014 Actual Revenues	20,091,089
Plus FY 2014 Actual Federal Revenues	8,863,000
Plus FY 2014 Actual Transfers to GRF	373,613
Total Sources Available for Expenditure & Transfer	**31,966,951**
Less FY 2014 Actual Disbursements	29,983,524
Less FY 2014 Actual Total Encumbrances as of June 30, 2014	439,068
Less FY 2014 Actual Transfers Out	1,257,369
Total Actual Uses	**31,679,961**
FY 2014 UNENCUMBERED ENDING FUND BALANCE	**286,991**

OBM staff that contributed to the development of this report were:

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Ohio Manufacturers' Association

Tax Counsel Report
February 20, 2014

By Mark A. Engel
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<u>Administrative Actions:</u>

The Department issued Information Release EW 2013-01 – *Guidelines for Employers Providing Benefits to Employees Married in a Jurisdiction that Recognizes Same-Gender Marriage* – Issued Nov. 14, 2013. The Information Release explains that income must be imputed to employees where an employer provides various benefits to same-gender couples and their dependents. A copy of the Information Release is attached to this report. Recall that the Department had previously issued guidance for individuals involved in same-gender marriages. IT 2013-01 – *Filing Guidelines for Taxpayers Filing a Joint Federal Income Tax Return with Someone of the Same Gender* – Issued Oct. 11, 2013 – Revised Dec. 19, 2013.

The Department of Taxation issued Schedule IT SBD, instructions and work sheet regarding the computation of the small business tax deduction that was enacted by House Bill 59. A copy of the instructions and work sheet are attached.

The Department of Taxation issued Information Release IT 2014-01 – *Modification to Non-Resident Personal Income Tax Nexus "Safe Harbor"* – Issued January 10, 2014. This release modifies Information Release PIT 2001-01, which describes various standards that the Department will apply to determine whether a nonresident is subject to Ohio's personal income tax. Previously, section IV, items O and P provided that a non-resident present in Ohio for fewer than 7 days and with less than $2,500 in gross income; or with employees present in Ohio for fewer than 7 days and with less than $2,500 in gross income, respectively, did not have nexus. The new thresholds are 20 days and $10,000 in gross income for both provisions. This revision is effective for taxable years 2014 and forward.

The Department of Taxation recently issued a release regarding minor revisions to several sales tax rules as part of the regular 5-year review of such rules. A copy of the release is attached.

The Department of Taxation issued a number of information releases in January relating to the administration of the Petroleum Activity Tax. Those releases include:

- PAT 2014-1, relating to licensing
- PAT 2014-2, relating to record retention

- PAT 2014-3, relating to sampling
- PAT 2014-4, relating to suppliers having to file and pay tax electronically

Legislative Actions:

House Bill 375, the bill designed to revamp Ohio's severance tax with respect to oil and natural gas, remains on the front burner at the General Assembly. A substitute bill was presented to the House Ways & Means Committee on February 12, 2014, and a summary of the substitute bill is attached to this report. Given reports of wide displeasure with the substitute bill, its future is uncertain.

Sub. House Bill 5, the municipal income uniformity proposal, remains reposing in the Senate.

Note that effective January 1, 2014, the new financial institutions tax in R.C. Chapter 5726 became effective.

Also note that effective January 1, 2014, personal income tax rates are reduced another 1.5%.

Judicial Actions:

Ohio Supreme Court

In *Mason City Sch. Dist. Bd. of Edn. v. Warren Cty. Bd. of Revision*, Slip Opinion No. 2014-Ohio-104, the Supreme Court ruled that a party who acquired the property during the pendency of an appeal to the BTA did not have to serve a copy of its notice of appeal to the Court on the former owner. On the merits of the appeal, the Court reversed a decision of the BTA that a sale occurring 13 months prior to tax lien date represented the value of the property when it failed to consider the argument that the property suffered a dramatic decrease in occupancy during the 13-month interim.

In *Gallenstein v. Testa*, 2014-Ohio-98, the Supreme Court ruled that the owner of a pleasure boat that was operated primarily downriver between Kentucky and Indiana, but was registered in Ohio in order to avoid issues with local police in Cincinnati, nevertheless qualified for the exemption from use tax for items brought into the state for mere transient use. The Court held that voluntarily registering the boat in Ohio under these circumstances was not akin to being required to register the boat under Ohio law.

Ohio Court of Appeals

In *Johnson v. Clark Cty. Bd. of Revision*, 2014-Ohio-329 (2nd Dist., Jan. 31, 2014), the Court of Appeals affirmed in part and reversed in part a decision of the BTA. It affirmed that portion of the decision that refused to reduce the value of improvements on the property because the property owner failed to produce competent evidence of the value of the improvements. However, it reversed that portion of the BTA's decision that upheld the decision of the BOR with respect to a portion of the land devoted to current agricultural use valuation because there was no evidence in the record to support that decision and the record clearly showed the auditor did not know how to determine the value such property.

<u>Ohio Board of Tax Appeals</u>

In *Navistar, Inc. v. Levine*, BTA No. 2010-575 (Dec. 31, 2013), the BTA upheld a determination of the Tax Commissioner in which that official adjusted the credit against the CAT for franchise tax NOLs because the taxpayer had adjusted its books in 2007, as required by GAAP, which resulted in a deferred tax asset that reduced the deferred tax liability to $0. The taxpayer had correctly computed the credit based upon its books and records as they existed on December 31, 2004, as required by law, and had argued the Tax Commissioner had no authority to change that calculation.

In *Hillenmeyer v. City of Cleveland Board of Review*, BTA No. 2009-3688 (Jan. 14, 2014), and *Saturday v. City of Cleveland Board of Review*, BTA No. 2011-4027 (January 28, 2014), the BTA upheld two municipal income tax assessments issued against professional football players. The City of Cleveland apportioned the income of the visiting players under its ordinance based on a proportion of games basis, whereas the players argued that a percentage based upon duty days ought to be used. In addition, Mr. Saturday was on injured reserve and did not accompany his team to Cleveland for its game. The BTA ruled that it had no power to address the constitutional issues that were raised in that appeal.

In *Bd. of Edn. of the Hillard City Schools v. Franklin Cty. Bd. of Revision*, BTA No. 2012-4155 (Jan. 17, 2014), the BTA reversed a decision of the BOR that reduced the value of the property in question based solely upon listings of sales. The BTA noted that sales listings, without more information regarding comparability, were not credible evidence upon which a determination of value could be based.

In *The 409 Group, Inc. v. Testa*, BTA No. 2010-1531 (Jan. 28, 2014), the BTA upheld a decision of the Tax Commissioner that denied a refund claim for sales tax under R.C. 5739.02(B)(45), which provides for a refund sales tax paid on telecommunications services to perform the functions of a call center. The statute conditions the exemption upon the employment of at least 50 employees on a full-time basis in “call center activities.” The BTA held that support positions did not count, and that only employees directly involved in such activities could be counted for purposes of this condition.

<u>Tax Commissioner Opinion</u>

No opinions to report.

Updated Severance Tax Proposal Presented in Ohio House of Representatives

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On February 12, 2014, the Ways and Means Committee of the Ohio House of Representatives was presented with a modified version of the severance tax proposal previously introduced on December 4, 2013. The modified legislation, known as Substitute House Bill 375 (Sub. HB 375), proposes to:

- Reduce (and for certain periods of time eliminate) the severance tax rate on persons extracting oil and natural gas by means other than horizontal wells (e.g. conventional drilling);
- Impose a new, higher severance tax on oil and natural gas produced through horizontal wells based on "gross receipts" received at the first point of sale less any costs incurred prior to the point of first sale;
- Eliminate the regulatory assessment fee currently paid by severers of oil and gas;
- Divide the proceeds from the severance tax among the Ohio Department of Natural Resources (ODNR), local governments and the income tax reduction fund;
- Provide a non-refundable credit against the state income tax equal to the amount of any severance tax paid by a royalty interest owner; and
- Offer an exclusion from the commercial activity tax (CAT) for proceeds of the sale of oil and gas by persons paying the severance tax and who are also subject to the income tax.

A copy of Sub HB 375 is available here -- http://www.legislature.state.oh.usBillText130/130_HB_375_I_Y.html.

<u>The Severance Tax: R.C. 5749.02(B)</u>

1. Conventional Oil and Gas Wells

The current volume-based severance tax is set forth in R.C. 5749.02(B), and is levied at a rate of 10 cents per barrel of oil and 2.5 cents per thousand cubic feet (MCF) of natural gas. Sub. HB 375 sets up a two-tiered structure for the severance tax depending on the type of well producing the hydrocarbons (e.g. conventional vs. horizontal) and based on the value (rather than the volume) of the hydrocarbons produced. R.C. 5749.02(C)(2) provides that with respect to oil and gas produced and sold from conventional wells after October 1, 2014, for the first three years after a well first produces, there is no severance tax. From years 4 through 20, the severance tax rate equals 0.25% of the gross receipts from the first sale of oil or gas; and, for all years thereafter the rate drops to 0.10%. For purposes of this proposal, the term "gross receipts" means those receipts "from the point of first sale of oil or gas severed from the soil or water of this state, without deduction for costs incurred after the point of first sale," while the "point of first sale" is defined to mean the "first point after the production of oil or gas from an owner's well at which the owner transfers ownership of the oil or gas." The substitute bill is silent as to whether expenses incurred prior to the point of first sale may be excluded. It also does not require any sort of consideration to be paid with respect to the point of first sale.

2. Horizontal Oil and Gas Wells

Sub. HB 375 proposes new language in R.C. 5749.02(C)(1) to establish a different mechanism for calculating the severance tax upon persons who extract oil and gas through the use of a horizontal well. Prior to October 1, 2014, oil and gas produced through a horizontal well remain subject to the existing, volume-based severance tax rates. Beginning October 1, 2014, during the initial two (2) years of production, the severance tax equals one percent (1%) of the gross receipts (as defined above) from the point of first sale of oil or gas, with an increase to two and one-quarter percent (2.25%) of the gross receipts in years 3 through 20, and back down to one percent (1%) in all subsequent years. Unlike the as-introduced bill, there is no lesser severance tax rate for low-producing wells (e.g., when quarterly production falls below an average of 100 MCF per day of natural gas, or 17 barrels of oil).

<u>Chart Summarizing Ohio Severance Tax</u>

<table>
<tr><th>Date</th><th colspan="3">Vertical Well</th><th colspan="3">Horizontal Well</th></tr>
<tr><td>Existing Law</td><td colspan="3">Natural Gas – 2.5¢ per MCF
Oil – 10¢ per barrel</td><td colspan="3">Natural Gas – 2.5¢ per MCF
Oil – 10¢ per barrel</td></tr>
<tr><td rowspan="2">HB 375 (as-introduced)</td><td colspan="3" rowspan="2">Natural Gas – 1.5¢ per MCF
Oil – 10¢ per barrel</td><td colspan="2">Years 1-5</td><td>After Year 5</td></tr>
<tr><td colspan="2">Oil/Natural Gas – 1% of net proceeds</td><td>Oil/Natural Gas – 2% of net proceeds (unless production falls below average of 100 MCF per day of natural gas, or 17 barrels of oil, in any calendar quarter)</td></tr>
<tr><td rowspan="2">Sub. HB 375</td><td>Years 0-3</td><td>Years 4-20</td><td>After Year 20</td><td>Years 0-2</td><td>Years 3-20</td><td>After Year 20</td></tr>
<tr><td>None</td><td>0.25% of gross receipts</td><td>0.10% of gross receipts</td><td>1% of gross receipts</td><td>2.25% of gross receipts</td><td>1% of gross receipts</td></tr>
</table>

NOTE: It is unclear with respect to wells producing as of the effective date of the statute whether Year 1 starts on October 1, 2014, or on the day the well first started producing.

3. Owner vs. Severer

A new proposal in R.C. 5749.02(C)(3) attempts to link the definition of a well "owner" in R.C. 1509.01 with the concept of "severer" as used in R.C. 5749.06 for purposes of establishing who is required to pay the severance tax. Consequently, the owner is obligated to report the gross receipts and quantity of oil and gas sold on the quarterly return required to be filed with the tax commissioner, and to remit the tax that is owed.

4. Affiliate Sales

With respect to affiliated entities, R.C. 5749.02(C)(3) gives the tax commissioner unfettered discretion to analyze transactions that constitute the point of first sale to determine whether the relationship between the well owner/severer and purchaser is such that the sale price is not indicative of the market price at the point of first sale. If the tax commissioner determines that the price does not reflect the "market price," the tax commissioner may determine the price to use for purpose of calculating the severance tax. The bill contains no guidance as to how this determination is to be made, nor does it provide a basis for a taxpayer to contest that determination.

5. Record Retention

Another new provision in Sub. HB 375, R.C. 5749.13, requires the severer to retain all severance tax-related records for a period of five (5) years.

Elimination of the Regulatory Assessment in R.C. 1509.50

In addition to restructuring the calculation of Ohio's oil and gas severance tax, Sub. HB 375 (like the as-introduced version) proposes to eliminate the regulatory assessment currently found in R.C. 1509.50. For most well owners, the existing regulatory assessment totals 10 cents per barrel of oil and ½ of one (1) cent per thousand cubic feet (MCF) of natural gas produced, which goes towards funding of ODNR's Division of Oil and Gas Resources.

Oil and Gas Severance Tax Fund: New R.C. 5749.02(D)(6)

Under new language in R.C. 5749.02(D)(6), the General Assembly proposes to create a new oil and gas severance tax fund within the state treasury to manage and distribute the collected severance tax payments. By September 25th of each year, the director of budget and management must transfer: (i) $18 million to ODNR's oil and gas well fund and $3 million to the geological mapping fund, which amounts are to be proportionately reduced if the amount in the fund totals less than $21 million; (ii) of any remaining balance, 10% of the original amount credited to the severance tax fund to the local government reimbursement fund; and (iii) any remaining amount to the income tax reduction fund, which is to be used to provide temporary income tax rate reductions.

Local Government Reimbursement Fund: New R.C. 5747.56

The new local government reimbursement fund is designed to return some of the severance tax money to the areas in Ohio where shale development is occurring. The money within this fund will be distributed in various proportions to: (i) the undivided local government fund and public library fund; (ii) the new severance tax infrastructure fund; (iii) the new matching revenue fund (used to match funds from federal or state grants not associated with employee compensation, benefits or other personnel costs); and (iv) the new severance tax trust fund (only for use after 2025 to fund projects fostering "long-term prosperity" and "a positive legacy"). *See e.g.*, R.C. 190.01-.04, and R.C. 321.50.

Non-Refundable Income Tax Credit for Royalty Interest Owners: New R.C. 5747.63

In R.C. 5747.63, the General Assembly modifies its proposal to establish a nonrefundable income tax credit equal to the amount of the severance tax paid for calendar quarters that end during the taxpayer's taxable year. Unlike the as-introduced version of the bill, Sub. HB 375 provides the income tax credit only to a person with a royalty interest (defined to mean the "fee holder's share in the production from a well") who is liable for the severance tax (e.g., under the terms of an oil and gas lease). The credit is equal to the severance tax paid by the owner multiplied by the lesser of 12.5% or the proportion of the tax which the royalty owner-taxpayer is contractually required to pay to the owner. The royalty interest owner cannot carry the credit forward, and is unable to utilize the credit if it also takes an income tax deduction under R.C. 5747.01(A)(31) (the small business investor deduction). In order to facilitate the royalty interest owner's use of this credit, Sub. HB 375 also imposes a new obligation on the well owner to provide an annual statement identifying the total amount of the severance tax paid by the person holding the royalty interest. While the original bill based the income tax credit on severance tax paid with respect to oil and gas extracted by means of a horizontal well, the credit in the substitute bill applies to any severance tax paid under R.C. 5749.02(C) with respect to oil and gas extracted by any means.

Exclusion from Commercial Activity Tax (CAT)

A new exclusion from the definition of gross receipts for purposes of the commercial activity tax is created in R.C. 5751.01(F)(2)(jj). This provision excludes receipts from the first sale of oil or gas sold after October 1, 2014, if the CAT taxpayer is subject to the personal income tax or is a pass-through entity, the direct or indirect owners of which are subject to the income tax on the income from the sale.

Ohio | Department of Taxation

Joseph W. Testa, Tax Commissioner
Issued: October 11, 2013

Individual Income Tax - Information Release

IT 2013-01 - Filing Guidelines for Taxpayers Filing a Joint or "Married Filing Separately" Federal Income Tax Return With Someone of the Same Gender - Issued Oct. 11, 2013 - Revised Dec. 19, 2013

Introduction

This information release offers guidance to a taxpayer who is filing a joint or "married filing separately" federal income tax return with someone of the same gender and who is filing an Ohio income tax return meeting the following criteria:

- Original Ohio return for taxable year 2012 and earlier filed on or after September 16, 2013 (the date prescribed in IRS Revenue Ruling 2013-17).

- Original Ohio return filed for taxable years 2013 and after.

Background

On June 26, 2013, the U.S. Supreme Court issued a decision on the constitutionality of section 3 of the federal Defense of Marriage Act (DOMA), which had established a federal definition of marriage. Following the Court's decision, the Internal Revenue Service issued Revenue Ruling 2013-17. The ruling provides that a marriage between same-gender individuals performed in a jurisdiction that recognizes such a marriage will now be recognized for federal income tax purposes. As a result, same-gender married couples may file joint or "married filing separately" federal income tax returns on or after September 16, 2013 even if they are domiciled in a jurisdiction whose laws do not recognize a same-gender marriage.

Ohio Guidance

Under Article XV §11 of the Ohio Constitution, Ohio does not recognize marriage between persons of the same gender. Individuals who entered into such a marriage in another jurisdiction shall not use the filing status of "married filing jointly" or "married filing separately" when filing Form IT 1040. Each individual must instead file an Ohio return in accordance with the following guidelines:

- File a separate Ohio income tax return using Form IT 1040 and check the box on the first page indicating that Schedule IT S (explained further below) will be filed.

- Use the filing status of "single" or, if qualified, "head of household".

- Complete Ohio Schedule IT S, *Federal Adjusted Gross Income to be Reported by Same-Gender Taxpayers Filing a Joint or Married Filing Separately Federal Return,* which is a supplement to Form IT 1040. This is a schedule on which such individuals shall re-determine their federal adjusted gross income ("federal AGI") as if they had filed using the "single" or "head of household" filing status. These amounts shall be reported as the individuals' federal AGI for Ohio purposes including, but not limited to, on line 1 of the IT 1040. One Schedule IT S shall be completed and a copy submitted with each individual's IT 1040 return. The Schedule and instructions are available online at http://www.tax.ohio.gov/Forms.aspx.

- Taxable year 2013 returns may be filed electronically using Ohio electronic filing services at www.tax.ohio.gov and commercial software products, or by paper. Original returns for taxable years 2012 and prior must be filed via paper. Taxpayers may not file any of these returns using Form IT 1040EZ or TeleFile.

Although the IRS Revenue Ruling permits same-gender couples to file amended federal returns to change filing status to "married filing jointly" or "married filing separately", no corresponding Ohio amended returns may be filed to change filing status for prior years.

Questions?

Taxpayers may visit www.tax.ohio.gov for more information. Questions may be submitted by clicking on the "Contact" link found at the top right of the page and then choosing the "Email Us" option. Taxpayers with additional questions regarding this subject may contact Individual Income Taxpayer Services at 1-800-282-1780.

Ohio | Department of Taxation

Sales & Use Tax Division Seeks Comments on Proposed Rule Changes

As part of the Department's five-year rule review process, the Sales & Use Tax Division proposes the following rule changes:

Rule Number	Proposed Change
5703-9-01	Rescission. This rule is unnecessary because the requirements for vendor's licenses are set forth in Ohio Rev. Code 5739.17.
5703-9-02	This rule was revised to delete provisions of the rule that duplicate Ohio Rev. Code 5739.03 and 5739.13. Since more than 50% of the rule has changed, the Legislative Service Commission requires rescission of the existing rule and adoption of a revised rule with the new language.
5703-9-03	This rule was revised to delete provisions of the rule that duplicate Ohio Rev. Code 5739.03 and 5739.031. Since more than 50% of the rule has changed, the Legislative Service Commission requires rescission of the existing rule and adoption of a revised rule with the new language.
5703-9-04	Revised to correct citations to the Ohio Rev. Code.
5703-9-05	Revised to correct citations to the Ohio Rev. Code.
5703-9-11	No changes.
5703-9-12	Minor revisions.

All comments regarding the proposed rule changes should be sent to Phyllis Shambaugh, Counsel, Sales & Use Tax Division, at phyllis.shambaugh@tax.state.oh.us by January 31, 2014.

Thank you for using the Ohio Tax Alert tax notification system.

Ohio Small Business Investor Income Deduction

Instructions for Apportioning Business Income Solely for Purposes of Computing the Small Business Investor Income Deduction

Rev. 1/14

Ohio | Department of Taxation

tax.Ohio.gov

Ohio schedule IT SBD is solely for use in determining the small business investor income deduction. See Ohio Revised Code section (R.C.) 5747.01(A)(31).

Do not use this schedule to compute Ohio adjusted gross income. The form and instructions apply to resident, part-year resident and nonresident individuals who have business income from Ohio sources. If your only source of Ohio income is wages paid by an unrelated employer, you are not eligible to use this form.

Important: This form assumes that the taxpayer has business income that could include (i) a distributive share of income/gain from only one pass-through entity or (ii) distributive shares of income/gain from more than one pass-through entity that are unitary with each other (under Ohio law, pass-through entities include sole proprietorships).

Pass-through entities and trusts should not use this form.

Definitions

Business Income and Nonbusiness Income

"Business income" means income, including gain or loss, arising from transactions, activities and sources in the regular course of a trade or business and includes income from real, tangible and intangible property if the acquisition, rental, management and disposition of the property constitute integral parts of the regular course of a trade or business operation. Also, "business income" consists of income, including gain or loss, from a partial or complete liquidation of a business, including, but not limited to, gain or loss from the sale or other disposition of goodwill (R.C. 5747.01(B)).

In general, income, deductions, gains and losses recognized by a sole proprietorship or a pass-through entity are items of business income that the individual must apportion using Part I, C of Ohio Schedule IT SBD.

"Nonbusiness income" means all income other than business income and may include, but is not limited to, compensation, rents and royalties from real or tangible personal property, capital gains, interest, dividends, distributions, patent or copyright royalties, and lottery winnings, prizes and awards (R.C. 5747.01(C)). Nonbusiness income should be excluded from the figures reported on this schedule.

R.C. 5747.21 and 5747.22 Apportionment of Business Income or Deductions (see instructions for line 11 and Part II on Schedule)

The amount of business income and deductions apportioned to Ohio is determined by multiplying the net business income by an Ohio apportionment ratio, which is the sum of the property, payroll and sales factors (please refer to the Part II apportionment formula for business income on Ohio Schedule IT SBD). Please note that the net business income consists only of those items of income and deduction that would be included in Ohio adjusted gross income (Ohio form IT 1040, line 3) if not for this deduction.

Each factor is weighted: The property and payroll factors are weighted at 20% each and the sales factor at 60%, for a total of 100%. If any factor has a denominator (total everywhere figure) of zero, the weight given to the other factors must be proportionately increased so that the total weight given to the combined factors is 100%. For example: If the business entity has no payroll everywhere, then the property and sales factors are weighted at 25% and 75%, respectively, to total 100%. Alternatively, if the business has neither payroll nor property everywhere, the sales factor is weighted at 100%.

R.C. 5747.22(B) and (C) Apportionment and Allocation of Income and Deductions of Pass-Through Entities

Apportionment of Pass-Through Entity Business Income

With respect to a pass-through entity where one or more of the nonresident or part-year resident investors are subject to the Ohio income tax, the business income and deductions of the pass-through entity shall be apportioned to Ohio in the hands of the pass-through entity according to the instructions for apportioning business income, Such business income and deductions thus apportioned to Ohio are then allocated to the investors in proportion to their right to share in such business income.

Business Income (Part I, Part A)

Line 1 – Compensation Received from a Pass-Through Entity

Guaranteed payment or compensation paid by a pass-through entity (S corporation, partnership, limited liability company treated as a partnership for income tax purposes, etc.) having nexus with Ohio to an investor holding at least a 20% direct or indirect interest in the entity is considered a distributive share of income of the entity and treated as business income, which is subject to apportionment for purposes of computing the individual's small business investor income deduction (R.C. 5733.40(A)(7)). The "reciprocity agreements" between Ohio and neighboring states do not apply to full-year nonresidents directly or indirectly owning at least 20% of the stock or other equity of a pass-through entity.

Line 2 – Related Member Add-back

R.C. 5733.042(A)(6) and 5733.04(P) disallow expenses and losses incurred in connection with all direct and indirect transactions between each pass-through entity and its related members. As such, you must add back on Part I, line 2 your distributive/proportionate share of such expenses and losses. However, do not add (i) amounts shown on line 1 or (ii) expenses or losses incurred in connection with sales of inventory to the extent that the cost of the inventory and the loss incurred were calculated in accordance with Internal Revenue Code sections (I.R.C.) 263A and 482.

Line 3 – Ordinary Income or Loss

Include ordinary income or loss from business activities to the extent not shown on line 1. Include only income that is business income as defined by R.C. 5747.01(B).

Line 6 – Depreciation Adjustments
For tax years 2012 and thereafter, add 2/3, 5/6 or 6/6 of the I.R.C. 168(k) bonus depreciation claimed under the I.R.C. Also add 2/3, 5/6 or 6/6 of the excess of the I.R.C. 179 depreciation expense claimed under the I.R.C. over the amount of the I.R.C. 179 depreciation expense that would have been allowed based upon I.R.C. 179 in effect on Dec. 31, 2002. See R.C. 5747.01(A)(20) as amended by the 129th General Assembly in HB 365 and information releases 2002-02 and 2002-01 regarding Ohio bonus depreciation adjustments available on our Web site at **tax.ohio.gov.** These releases were originally posted on July 31, 2002 and Nov. 7, 2002.

Under I.R.C. 179, as that section existed on Dec. 31, 2002, the maximum amount that could be expensed was $25,000, and the phase-out began once the cost of purchases of I.R.C. 179 property during the year exceeded $200,000. So, under the prior law the taxpayer could not claim any I.R.C. 179 expense if the taxpayer's purchases during the year of I.R.C. 179 property, as defined on Dec. 31, 2002, were $225,000 or more.

This "add-back and subsequent deduction" law also covers (i) depreciable assets acquired by the taxpayer's disregarded entities and (ii) depreciable assets that are owned by pass-through entities in which the taxpayer directly or indirectly owns at least 5% (R.C. 5747.01(A)(20)(a)).

In addition, the pass-through entity can defer making all or some of the add-back under the following circumstances:

(i) the pass-through equity is an equity investor in another pass-through entity that has generated I.R.C. 168(k) bonus depreciation and/or I.R.C. 179 depreciation; and

(ii) because of either the federal passive activity loss limitation rules or the federal at-risk limitation rules, this investor pass-through entity is unable to deduct fully a loss passing through from the other pass-through entity to this investor pass-through entity.

In such circumstances, to the extent that this investor pass-through entity does not deduct the loss passing through, this investor pass-through entity can defer making the "2/3 or 5/6 add- back" until the taxable year or years for which this investor pass-through entity does deduct the investee pass-through entity's loss and receives a federal tax benefit from the bonus depreciation amount and/or the I.R.C. 179 amount generated by the investee pass-through entity. Of course, this investor pass-through entity cannot begin claiming the related two- or five-subsequent years deduction until the first taxable year immediately following the taxable year for which this investor pass-through entity makes the 2/3 or 5/6 add-back.

For detailed information and examples regarding this adjustment, see R.C. 5747.01(A)(20) as amended by the 129th General assembly in HB 365 and the department's information release entitled "Recently Enacted Ohio Legislation Affects Depreciation Deductions for Taxable Years Ending 2001 and Thereafter" by visiting **tax.ohio.gov.** The department posted this release on July 31, 2002, and revised the release in July 2005 and June 2009.

Line 7 – Miscellaneous Federal Income Tax Adjustments
Because of a recent amendment to R.C. section 5701.11, there are no miscellaneous federal tax adjustments on this schedule. See Sub. House Bill 58, 129th General Assembly. However, you must make all other required adjustments for this line.

Deductions From Business Income (Part I, Part B) Line 9b – Depreciation Adjustments

Deduct 1/2, 1/5 or 1/6th of the I.R.C. 168(k) and 179 depreciation adjustments you added back on each of your last two, five or six years' Ohio income tax returns. You can take this deduction even if you no longer directly or indirectly own the asset. See R.C. 5747.01(A)(21) as amended by the 129th General Assembly in HB 365 and information releases 2002-02 and 2002-01 regarding Ohio bonus depreciation adjustments available on our Web site at tax.ohio.gov. These releases were originally posted on July 31, 2002 and Nov. 7, 2002.

Line 9d – Miscellaneous Federal Income Tax Adjustments
Because of a recent amendment to R.C. section 5701.11, there are no miscellaneous federal tax adjustments on this schedule. See Sub. House Bill 58, 129th General Assembly. However, you must make all other required adjustments for this line.

Net Business Income, Apportionment (Part I, C)

Line 11 – Ohio Apportionment Ratio (Part II, Line 4)
Note: When calculating the fraction used to compute the Ohio small business investor income deduction, a taxpayer who has invested in a partnership, an S corporation or a limited liability company treated as a partnership for federal income tax purposes must apply the "aggregate" (conduit) theory of taxation. That is, the character of all income and deductions (and adjustments to income and deductions) realized by a pass-through entity in which the taxpayer has invested retains that character when recognized by the taxpayer. Furthermore, the taxpayer's factors must include the proportionate share of each lower-tiered pass-through entity's property, payroll and sales (R.C. 5733.057 and 5747.231).

Property Factor
The property factor is a fraction the numerator of which is the average value of the sole proprietor's or pass-through entity's includable real and tangible personal property owned or rented, and used in the trade or business in this state during the taxable year, and the denominator of which is the average value of all the sole proprietor's or pass-through entity's includable real and tangible personal property owned or rented, and used in the trade or business everywhere during such year.

Ohio law includes in the property factor real property and tangible personal property that the sole proprietor or pass-through entity rents, subrents, leases or subleases to others if the income or loss from such rentals, subrentals, leases or subleases is business income. Ohio law specifically excludes from the factor all property relating to, or used in connection with, the production of nonbusiness income allocated under R.C. 5733.051. Generally, all sole proprietorship and pass-through entity income and gain is business income.

Property owned by the sole proprietor or pass-through entity is valued at its original cost average value. Average value is determined by adding the cost values at the beginning and at the end of the taxable year and dividing the total by two. The tax commissioner may require the use of monthly values during the taxable year if such values more reasonably reflect the average value of the sole proprietor's or pass-through entity's property.

Exclusions

Exclude from column 1 (within Ohio) and column 2 (total everywhere) the following:

- Construction in progress.
- Property relating to, or used in connection with, the production of nonbusiness income. See R.C. 5733.05(B)(2) as amended by Amended Substitute House Bill 95, 125th General Assembly.
- The numerator and the denominator of the property factor includes real property and tangible personal property that the sole proprietor or pass-through entity rents, subrents, leases or subleases to others if the income or loss from such rentals, subrentals, leases or subleases is business income. See R.C. 5733.05(B)(2)(a) as amended by Amended Substitute House Bill 95, 125th General Assembly. Property owned by the sole proprietor or pass-through entity and leased to others is excluded from the property factor only if the property generates nonbusiness income.
- The original cost of property within Ohio with respect to the air pollution, noise pollution or industrial water pollution control certificates issued by the state of Ohio (R.C. 5733.05(B)(2)(a)).
- The original cost of real property and tangible property (or in the case of property that the sole proprietor or pass-through entity is renting from others, eight times its net annual rental rate) within Ohio that is used exclusively during the taxable year for qualified research.

Do not include in column 1 but do include in column 2 the original cost of qualifying improvements to land or tangible personal property in an enterprise zone for which the taxpayer holds a Tax Incentive Qualification Certificate issued by the Ohio Development Services Agency.

Line 1(a), Column 1 – Property Owned Within Ohio

Enter the average value of the sole proprietor's or pass-through entity's real property and tangible personal property, including leasehold improvements, owned and used in the trade or business in Ohio during the taxable year.

Line 1(a), Column 2 – Property Owned – Total Everywhere

Enter the average value of all the sole proprietor's or pass-through entity's real property and tangible personal property, including leasehold improvements, owned and used in the trade or business everywhere during the taxable year.

Line 1(b) – Property Rented

Enter the value of the sole proprietor's or pass-through entity's real property and tangible personal property rented and used in the trade or business in Ohio (column 1) and everywhere (column 2) during the taxable year. Property rented by the sole proprietor or pass-through entity is valued at eight times the annual rental rate (annual rental expense less subrental receipts).

Line 1(c) – Property Total Within Ohio and Everywhere

Add lines 1(a) and 1(b) for column 1 (within Ohio) and column 2 (total everywhere).

Line 1(c), Column 3 – Property Ratio

Enter the ratio of property within Ohio to total everywhere by dividing column 1 by column 2.

Line 1(c), Column 5 – Weighted Property Ratio

Multiply the property ratio on line 1(c), column 3 by the property factor weighting of 20%.

Payroll Factor

The payroll factor is a fraction, the numerator of which is the total compensation paid in this state during the taxable year by the sole proprietor or pass-through entity, and the denominator of which is the total compensation paid both within and without this state during the taxable year by the sole proprietor or pass-through entity. As used below, the term "compensation" means any form of remuneration paid to an employee for personal services.

Exclusions

Exclude from column 1 (within Ohio) and column 2 (total everywhere) the following:

- Guaranteed payments made to partners;
- Compensation that the S corporation paid to any shareholder if the shareholder directly or indirectly owned at least 20% of the S corporation at any time during the year (R.C. 5733.40(A)(7));
- Compensation paid in Ohio to employees who are primarily engaged in qualified research; AND
- Compensation paid to employees to the extent that the compensation relates to the production of nonbusiness income allocable under R.C 5733.051 (R.C. 5733.05(B)(2)).

Do not include in column 1 but do include in column 2 compensation paid in Ohio to certain specified new employees at an urban job and enterprise zone facility for which the pass-through entity has received a Tax Incentive Qualification Certificate issued by the Ohio Development Services Agency.

Line 2, Column 1 – Payroll Within Ohio

Enter the total amount of the sole proprietor's or pass-through entity's compensation paid in Ohio during the taxable year. Compensation is paid in Ohio if any of the following apply:

- The recipient's service is performed entirely within Ohio; or
- The recipient's service is performed both within and outside Ohio, but the service performed outside Ohio is incidental to the recipient's service within Ohio; OR
- Some of the recipient's service is performed within Ohio and either the recipient's base of operations, or if there is no base of operations, the place from which the recipient's service is directed or controlled is within Ohio, or the base of operations or the place from which the service is directed or controlled is not in any state in which some part of the service is performed, but the recipient's residence is in Ohio.

Compensation is paid in Ohio to any employee of a common or contract motor carrier corporation who performs his regularly assigned duties on a motor vehicle in more than one state in the same ratio by which the mileage traveled by such employee within Ohio bears to the total mileage traveled by such employee everywhere during the taxable year. The statutorily required mileage ratio applies only to contract or common carriers. Thus, without approval by the tax commissioner a manufacturer or merchant who operates its own fleet of delivery trucks cannot use the ratio of miles traveled in Ohio to miles traveled everywhere to situs driver payroll. See Cooper Tire and Rubber Co. v. Limbach (1994), 70 Ohio St. 3d 347.

Line 2, Column 2 – Payroll Total Everywhere
Enter the total amount of the sole proprietor's or pass-through entity's compensation paid everywhere during the taxable year.

Line 2, Column 3 – Payroll Ratio
Enter the ratio of payroll within Ohio to total everywhere by dividing column 1 by column 2.

Line 2, Column 5 – Weighted Payroll Ratio
Multiply the property ratio on line 2, column 3 by the payroll factor weighting of 20%.

Sales Factor
The sales factor is a fraction whose numerator is the sole proprietor's or pass-through entity's includable business income receipts in Ohio during the taxable year and whose denominator is the sum of the sole proprietor's or pass-through entity's within Ohio and without Ohio includable business income receipts during the taxable year. The sales factor specifically excludes receipts attributable to nonbusiness income allocable under R.C. 5733.051 (see R.C. 5733.05(B)(2) and the tax commissioner's April 2004 information release entitled "Sales Factor Situsing Revisions").

Exclusions
The following receipts are not includable in either the numerator or the denominator of the sales factor even if the receipts arise from transactions, activities and sources in the regular course of a trade or business (see R.C. 5733.05(B)(2)(c) as amended by Substitute House Bill 127, 125th General Assembly):

- Interest or similar amounts received for the use of, or for the forbearance of the use of, money;
- Dividends;
- Receipts and any related gains or losses from the sale or other disposal of intangible property other than trademarks, trade names, patents, copyrights and similar intellectual property;
- Receipts and any related gains and losses from the sale or other disposal of tangible personal property or real property where that property is a capital asset or an asset described in I.R.C. 1231. For purposes of this provision the determination of whether or not an asset is a capital asset or a 1231 asset is made without regard to the holding period specified in the I.R.C.; AND
- Receipts from sales to (a) an at-least-80%-owned public utility other than an electric company, combined electric company, or telephone company, (b) an at-least-80%-owned insurance company, or (c) an at-least-25%-owned financial institution.

Note: Income and gain from receipts excluded from the sales factor is not presumed to be nonbusiness income. All income, gain, loss and expense is presumed to be apportionable business income – even if the related receipts are excluded from the sales factor.

The law specifically includes in the sales factor the following amounts when arising from transactions, activities and sources in the regular course of a trade or business: (i) receipts from sales of tangible personal property, (ii) receipts from the sale of real property inventory (such as lots developed and sold by a real estate developer), (iii) rents and royalties from tangible personal property, (iv) rents and royalties from real property, (v) receipts from the sale, exchange, disposition or other grant of the right to use trademarks, trade names, patents, copyrights and similar intellectual property, (vi) receipt from the sale of services and other receipts not expressly excluded from the factor. These amounts are situsable to Ohio as set forth below.

Line 3, Column 1 – Sales Within Ohio
Enter the total of gross receipts from sales not excludable from the numerator and the denominator of the sales factor, to the extent the includable gross receipts reflect business done in Ohio. Sales within Ohio include the following:

- Receipts from sales of tangible personal property, less returns and allowances, received by the purchaser in Ohio. In the case of delivery of tangible personal property by common carrier or by other means of transportation, the place at which such property is ultimately received after all transportation has been completed is considered as the place at which such property is received by the purchaser. Direct delivery in Ohio, other than for purposes of transportation, to a person or firm designated by a purchaser constitutes delivery to the purchaser in Ohio, and direct delivery outside Ohio to a person or firm designated by a purchaser does not constitute delivery to the purchaser in

Ohio, regardless of where title passes or other conditions of sale. Customer pick-up sales are situsable to the final destination after all transportation (including customer transportation) has been completed. See Dupps Co. v. Lindley (1980), 62 Ohio St. 2d 305.

Revenue from servicing, processing or modifying tangible personal property is sitused to the destination state as a sale of tangible personal property. See Custom Deco, Inc. v. Limbach, BTA Case No. 86-C-1024, June 2, 1989.

- Receipts from sales of real property inventory in Ohio.
- Rents and royalties from tangible personal property to the extent the property was used in Ohio.
- Rents and royalties from real property located in Ohio.
- Receipts from the sale, exchange, disposition or other grant of the right to use trademarks, trade names, patents, copyrights and similar intellectual property are sitused to Ohio to the extent that the receipts are based on the amount of use of that property in Ohio. If the receipts are not based on the amount of use of that property, but rather on the right to use the property and the payor has the right to use the property in Ohio, then the receipts from the sale, exchange, disposition or other grant of the right to use such property are sitused to Ohio to the extent the receipts are based on the right to use the property in Ohio.
- Receipts from the performance of services and receipts from any other sales not excluded from the sales factor and not otherwise sitused within or without Ohio under the above situsing provisions are situsable to Ohio in proportion to the purchaser's benefit, with respect to the sale, in Ohio to the purchaser's benefit, with respect to the sale, everywhere. The physical location where the purchaser ultimately uses or receives the benefit of what was purchased is paramount in determining the proportion of the benefit in Ohio to the benefit everywhere. **Note:** For taxable years ending on or after Dec. 11, 2003, the "cost of performance" provision is no longer the law.

Line 3, Column 2 – Sales Everywhere
Enter the total of such includable gross receipts, less returns and allowances, from sales everywhere.

Line 3, Column 3 – Sales Ratio
Enter the ratio of sales within Ohio to total everywhere by dividing column 1 by column 2.

Line 3, Column 5 – Weighted Sales Ratio
Multiply the sales ratio on line 3, column 3 by the sales factor weighting of 60%.

Line 4, Column 5 – Total Weighted Apportionment Ratio
Add column (5), lines 1 (c), 2 and 3).

Ohio Small Business Investor Income Deduction (Part 1, D)

Line 13 – Ohio Small Business Investor Income
Individuals shall complete one form IT SBD (lines 1-12) for each pass-through entity in which the taxpayer has an ownership interest or sole proprietorship. Enter the sum of line 12 from each separate schedule.

Line 14 – Maximum Ohio Small Business Investor Income
If filing status is married filing jointly or single, head of household, enter $250,000 on this line. If filing status is married filing separately, enter $125,000 on this line.

Line 15 – Ohio Small Business Investor Income Deduction
Enter on this line the lesser of 50% of line 13 or 50% of line 14. R.C. 5747.01(A)(31) states, "deduct one-half of the taxpayers Ohio Small Business investor income, the deduction not to exceed $62,500 for each spouse if spouses file separate returns under R.C. 5747.08 or $125,000 for all other taxpayers. No pass-through entity may claim a deduction under this division.

For purposes of this division, "Ohio small business investor income" means the portion of the taxpayer's adjusted gross income that is business income reduced by deductions from business income and apportioned or allocated to this state under R.C. 5747.21 and 5747.22, to the extent not otherwise deducted or excluded in computing federal or Ohio adjusted gross income for the taxable year."

Note: Generally, all sole proprietorship and pass-through entity income and gain is business income.

Federal Privacy Act Notice

Because we require you to provide us with a Social Security number, the *Federal Privacy Act of 1974* requires us to inform you that providing us with your Social Security number is mandatory. Ohio Revised Code sections 5703.05, 5703.057 and 5747.08 authorize us to request this information. We need your Social Security number in order to administer this tax.

Summary of Ohio Tax Treatment of Income and Deductions for Purposes of the Small Business Investor Income Deduction

Note: Except for lottery prizes and awards, all income and gain is presumed to be business income/gain.

Type of Income and Deductions	Ohio Tax
1. Guaranteed payments and compensation paid to an individual for services performed	If the individual directly or indirectly owns at least 20% of the business, the individual must show the guaranteed payments and compensation on Part I, A, line 1.
2. Gains or losses from the sale or transfer of real property	Apportion if gain constitutes business income.
3. Gains or losses from the sale or transfer of tangible personal property	Apportion if gain constitutes business income.
4. Gains or losses from the sale or transfer of intangible personal property	Apportion if gain or loss constitutes business income.
5. Rents or royalties from real property	Apportion if gain constitutes business income.
6. Rents or royalties from tangible personal property	Apportion if the rents or royalties constitute business income.
7. Patent and copyright royalties	Apportion if the rents or royalties constitute business income.
8. Depreciation expense add-back/deduction	If the depreciation relates to nonbusiness property, the 1/2, 5/6 or 6/6 add-back and corresponding 1/2, 1/5 or 1/6 deductions are not considered business income and deductions. However, if the depreciation relates to business property, these depreciation adjustments are apportioned as items of business income and deduction using the Part I business income worksheet.

Ohio | Department of Taxation

Year 20____

IT SBD – Small Business Investor Income Deduction Schedule

Every taxpayer requesting a small business investor income deduction must complete a separate schedule for each pass-through entity in which the taxpayer has an ownership interest.

Part I

A. Business Income Before Deductions

1. Self-employment income (federal Schedule C, C-EZ or F), guaranteed payments and/or compensation received from each pass-through entity in which you have at least a 20% direct or indirect ownership interest. **Note:** Reciprocity agreements do not apply (see line instructions)	1.	00
2. Add-back for expenses paid to related members and to certain investors' family members (see instructions)	2.	00
3. Ordinary income (loss) from trade or business activities (to the extent not shown on line 1)	3.	00
4. Net income (loss) from rental activities, net royalties, interest income and dividend income	4.	00
5. Net capital gain (loss) and other gain (loss) (see the chart on page 7 of the instructions)	5.	00
6. Add adjustments from I.R.C. section 168(k) and qualifying 179 expenses (see line instructions)	6.	00
7. Other items of income and gain separately stated on federal Schedule K-1 and miscellaneous federal income tax adjustments, if any	7.	00
8. Total of lines 1 through 7	8.	00

B. Deductions From Business Income

9a. Keogh deduction, self-employment tax deduction and self-employed health insurance deduction	9a.	00
b. Deduct adjustments for the depreciation expenses added back in prior years (see line instructions)	9b.	00
c. Other items of deduction and loss separately stated on federal Schedule K-1 if such deductions are allowable in computing federal adjusted gross income (individuals) or federal taxable income (estates)	9c.	00
d. Other business income deductibles (describe) and miscellaneous federal income tax adjustments, if any ______	9d.	00
e. Total of lines 9a through 9d	9e.	00

C. Net Business Income, Apportionment

10. Net business income (line 8 minus line 9e)	10.	00
11. Ohio apportionment ratio (Part II, line 4)	11.	.
12. Total business income apportioned to Ohio (multiply line 10 by line 11)	12.	00

D. Ohio Small Business Investor Income Deduction

(Complete a separate schedule for each pass-through entity or sole proprietorship)

13. Ohio small business investor income (line 12 from each separate schedule; see instructions)	13.	00
14. Maximum Ohio small business investor income subject to deduction (see instructions)	14.	00
15. Ohio small business investor income deduction; 50% of line 13 or 50% of line 14, whichever is less (maximum deduction is $125,000 for married filing jointly or single/head of household/qualifying widow(er) filers and $62,500 for married filing separately filers. Enter here and on Ohio form IT 1040, line 41	15.	00

Part II – Apportionment Formula for Business Income

	(1) Within Ohio		(2) Total Everywhere		(3) Ratio (carry to six decimal places)	(4) Weight		(5) Weighted Ratio (carry to six decimal places)
1. Property								
(a) Owned (average cost)	______		______					
(b) Rented (annual rental x 8)	______		______					
(c) Total (lines 1a and 1b)	______	÷	______	=	.	x .20	=	1c. .
2. Payroll (see Exclusions on page 4 of the instructions)	______	÷	______	=	.	x .20	=	2. .
3. Sales (see Exclusions on page 5 of the instructions)	______	÷	______	=	.	x .60	=	3. .
4. Ohio apportionment ratio. Add lines 1c, 2 and 3 (enter ratio here and on Part C, line 11)								4. .

Chairman of the Board
RICK SCHOSTEK
Senior Vice President, Honda of America Manufacturing

President
ERIC L. BURKLAND

The Ohio Manufacturers' Association

January 30, 2014

The Honorable Matt Huffman
Ohio House of Representatives
77 S. High St., 14th Floor
Columbus, OH 43215

RE: House Bill 375

Dear Representative Huffman:

The Ohio Manufacturers' Association (OMA) has been an ardent supporter of the 2005 tax reforms including the creation of the commercial activity tax (CAT). Some of the most competitive aspects of the CAT are its broad base and its low rate. Those advantages are maintained when the General Assembly stands firm against carve-outs and exemptions.

According to the Ohio Department of Taxation in a report dated March 12, 2013, in fiscal year 2012, manufacturers made up the third largest population of CAT taxpayers, at 10.1%. In terms of CAT liability, manufacturers made up the largest share, at 27.3%. Manufacturers are concerned that new carve-outs, exemptions, or credits will strain CAT proceeds, forcing an increase in its rate, and pick CAT winners and losers, rather than an equitable application of the tax.

As introduced, H.B. 375 excludes horizontal drillers that pay the proposed horizontal well severance tax from paying the CAT on receipts realized on the sale of oil or natural gas. Excluding this industry from the CAT tax base narrows the base, reduces general revenue funds, and increases pressures to raise the rate. The OMA appreciates the General Assembly's efforts to modernize the state's severance tax. Please consider the principle of the CAT's broad base and low rate as the discussions move forward.

We urge the General Assembly and its leaders to remain strong against a new exclusion. If not, we risk damaging the competitive state tax advantages Ohio enjoys.

Thank you for your time and we would be happy to discuss this matter further.

Sincerely,

Robert A Brundrett

Robert Brundrett
Director, Public Policy Services
(614) 629-6814
rbrundrett@ohiomfg.com

cc: The Honorable Peter Beck
The Honorable Gary Scherer

Funding Ohio Communities

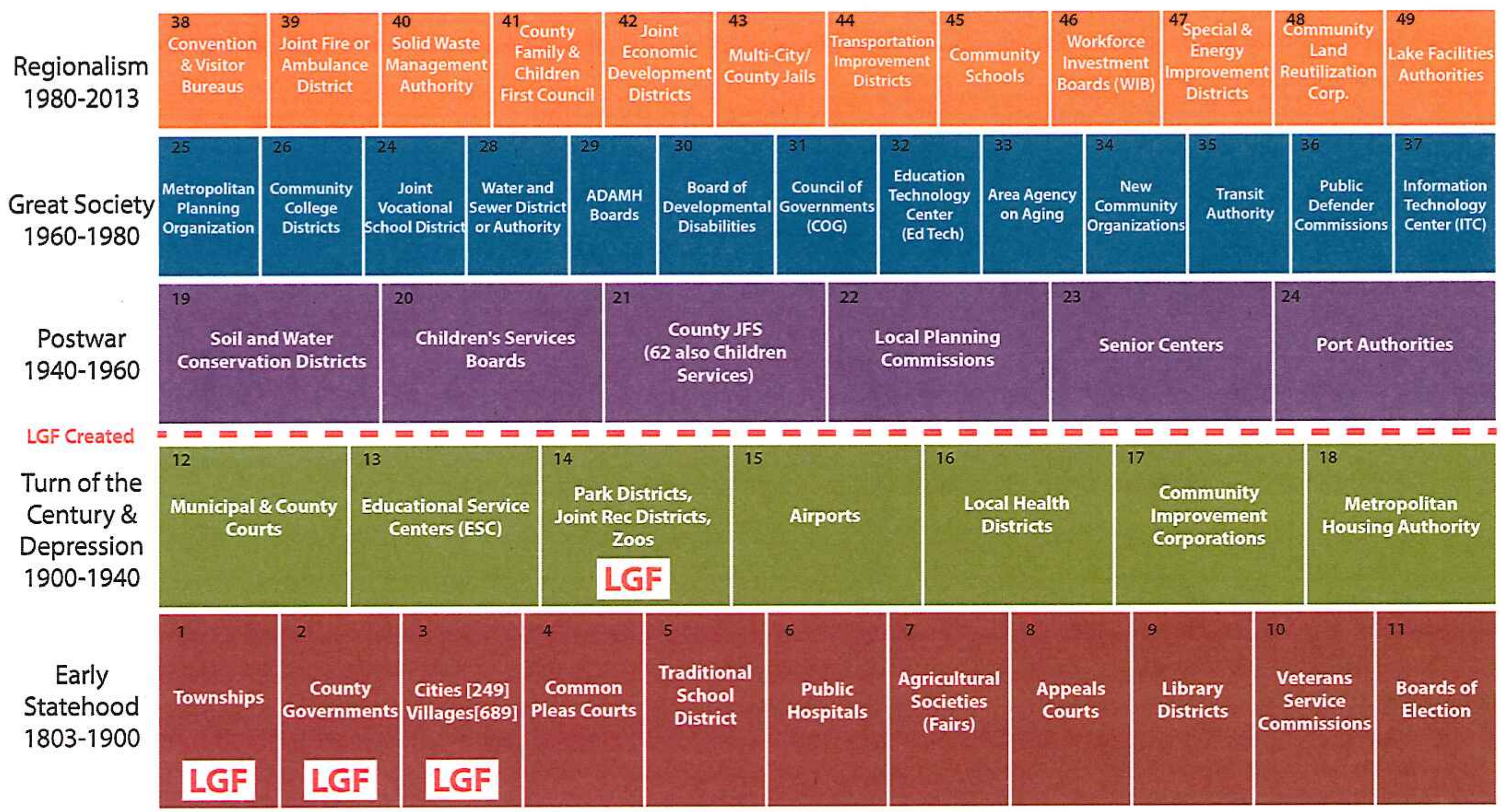
February 2014

OBM

TRANSFORMING OHIO
FOR JOBS + GROWTH

Growth of Local Government

The types of local governments have almost doubled over the past 40 years.



Government in Ohio 2013

how much paper would it take to send each of these agencies a letter?

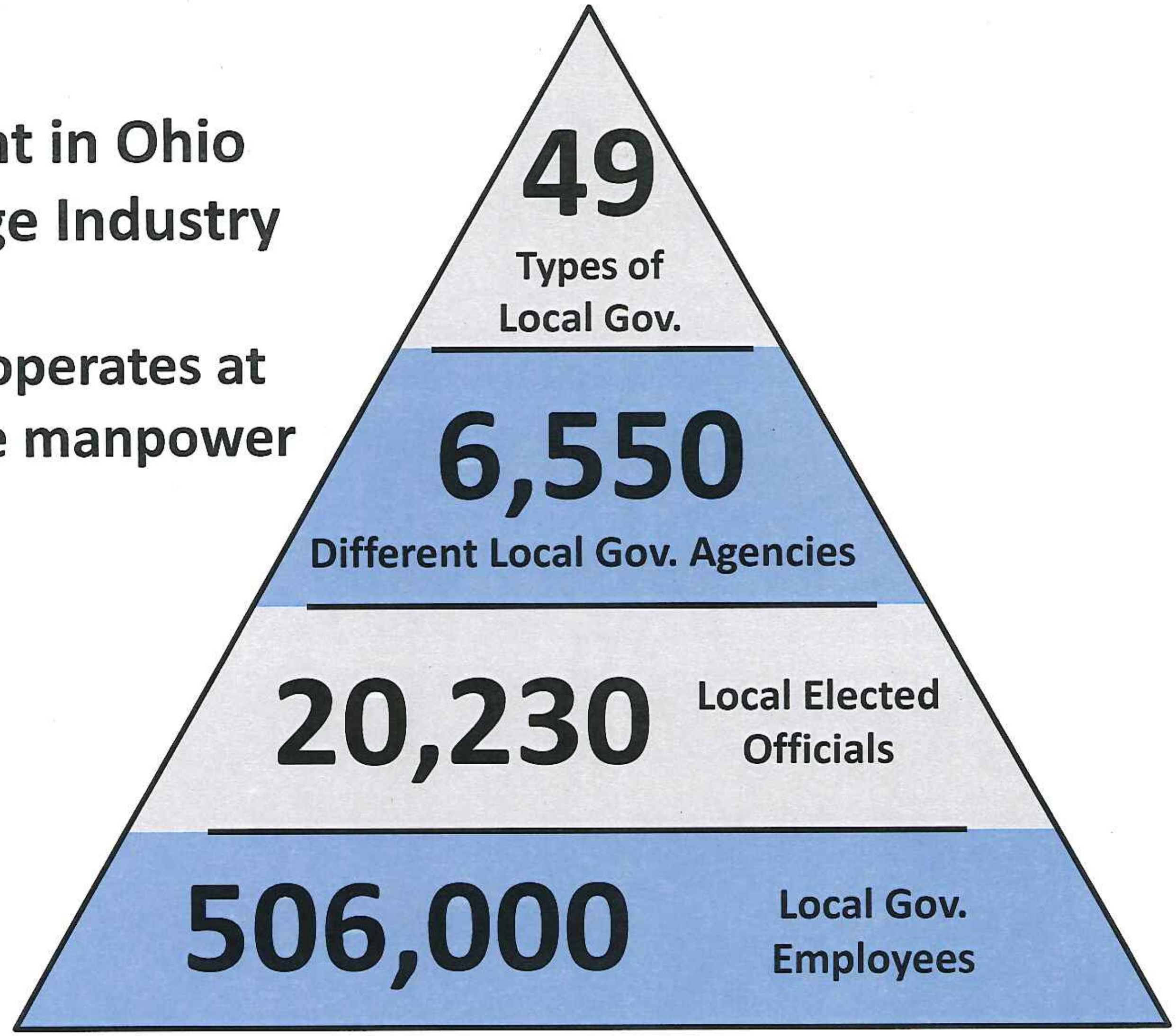
over 13 reams

49	6,550	20,230	506,000
types	agencies	elected officials	employees

Local Government is a Big Industry

Local Government in Ohio Has Become a Huge Industry

State government operates at just one-tenth of the manpower

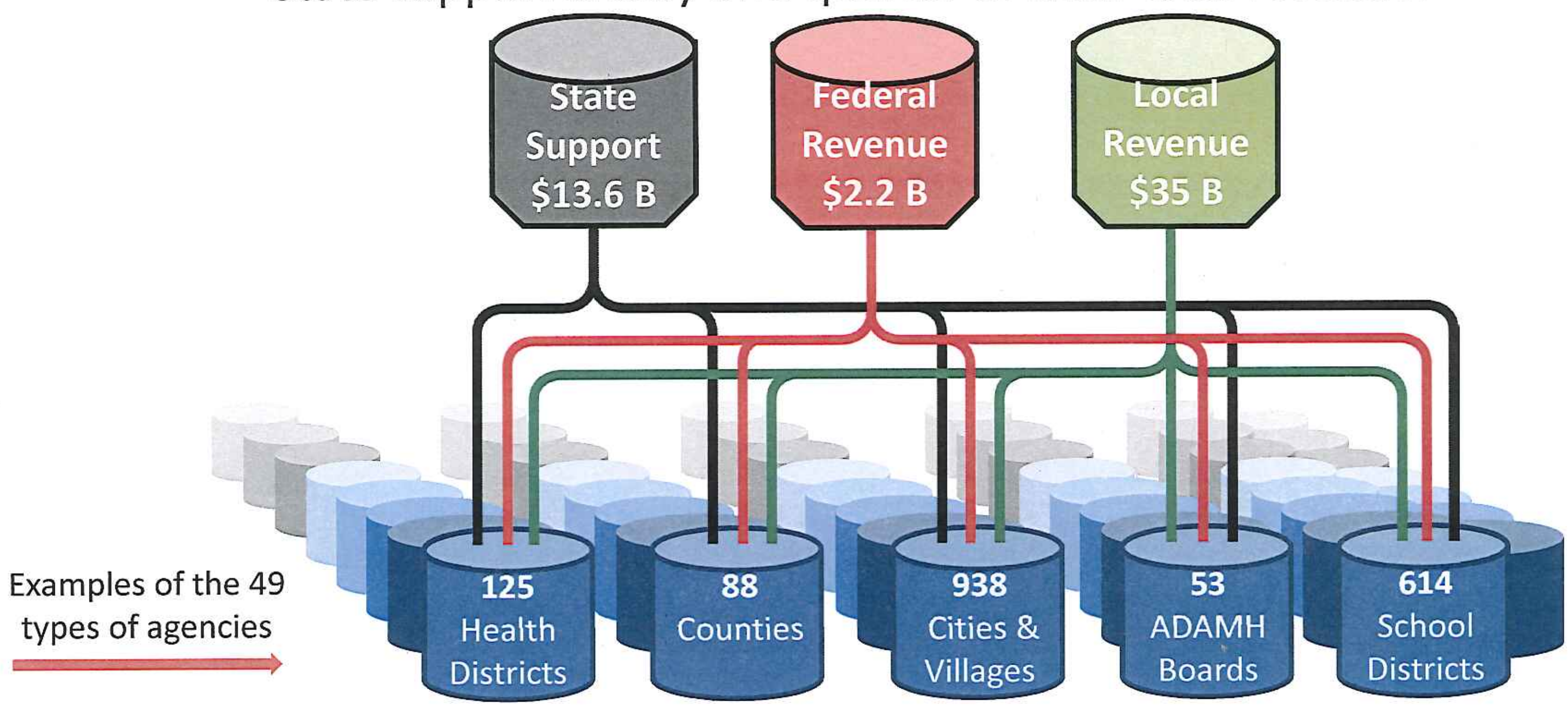


As of: 7/1/2013

How the Money Flows

The 49 types of Local Government agencies each have multiple revenue sources, often with many streams from each source - estimated to total over **$50 billion** this next year.

State support is only one-quarter of their total revenue.



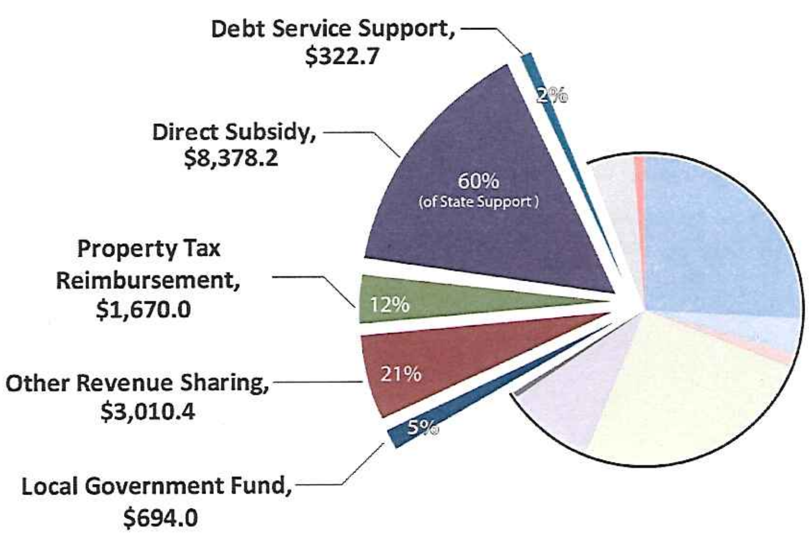
Other Local Revenue includes:
Water & Sewer, Parking, Trash, other fees

Sources: US Census Bureau, Ohio Office of Budget and Management, Ohio Department of Taxation

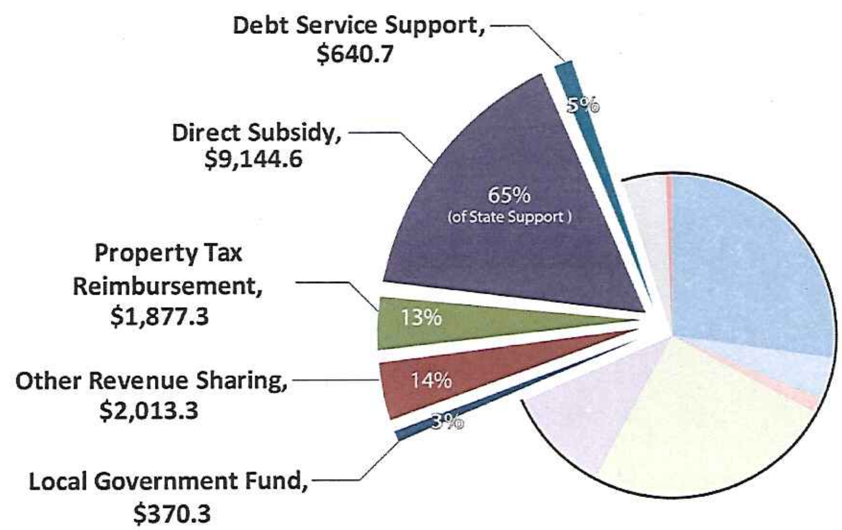
Direct Financial Support to Schools and Local Government

In the second year of the current state budget $14.2 billion is provided in **direct financial support** to local governments and schools.

2011 ($ 14,075.3)



2015 est. ($ 14,197.2)

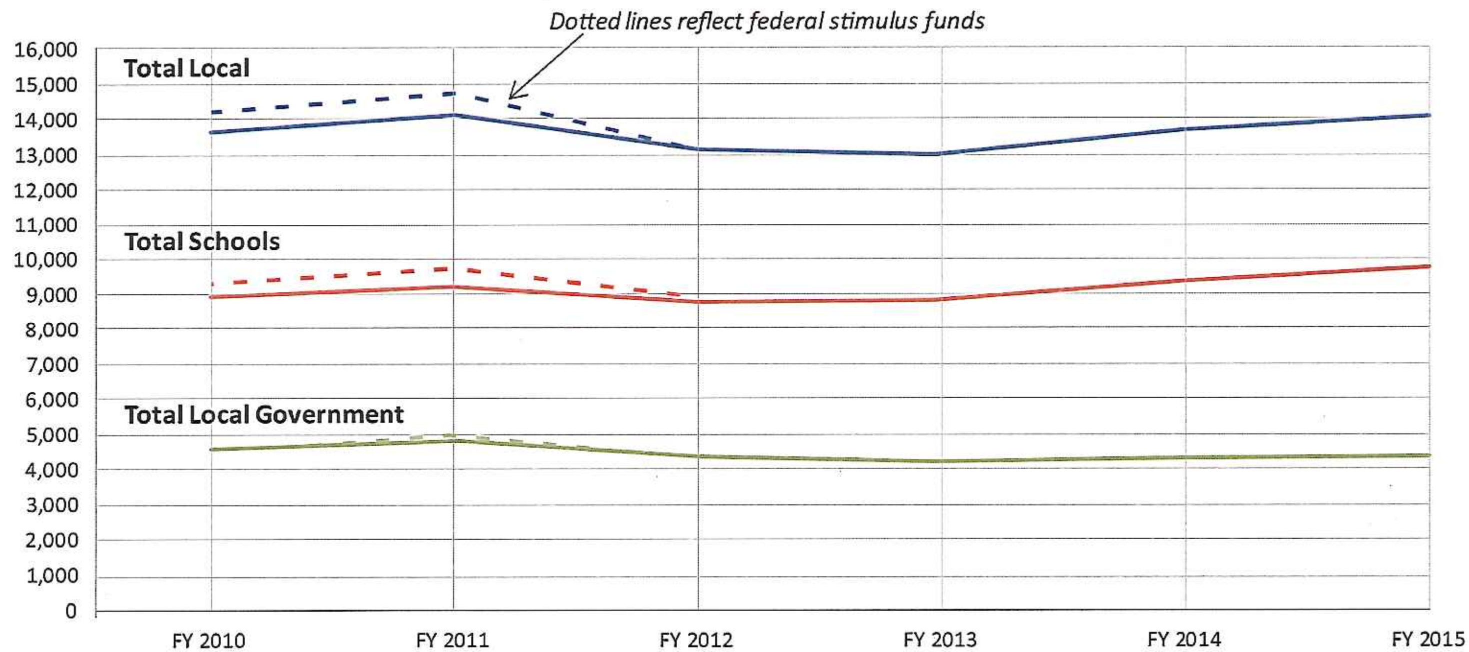


Sources: *Ohio Office of Budget and Management - Blue Book*

All Chart $$ in millions

Total State Support

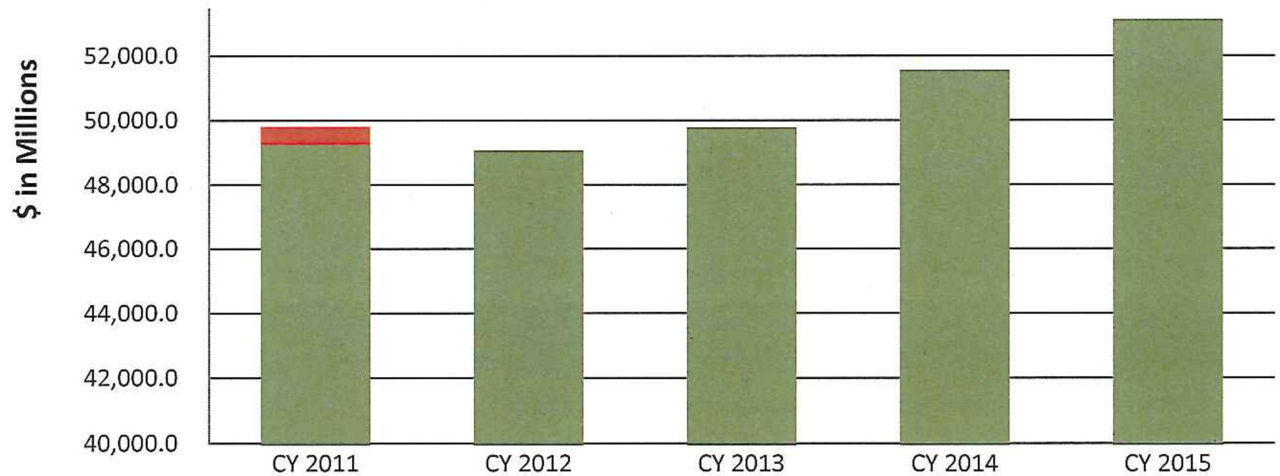
Total state support to Ohio schools and local governments has not experienced the drastic cuts some claim but instead has remained stable.



	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Total Schools:	9,399.9	9,731.5	8,775.2	8,792.6	9,329.9	9,855.1
Total Local Government:	4,760.3	4,884.5	4,347.2	4,172.5	4,310.5	4,342.1
Total Local:	14,160.2	14,616.1	13,122.4	12,965.1	13,640.4	14,197.2
No federal stimulus:	**13,742.7**	**14,075.3**				

$$ in millions

School and Local Government Revenue



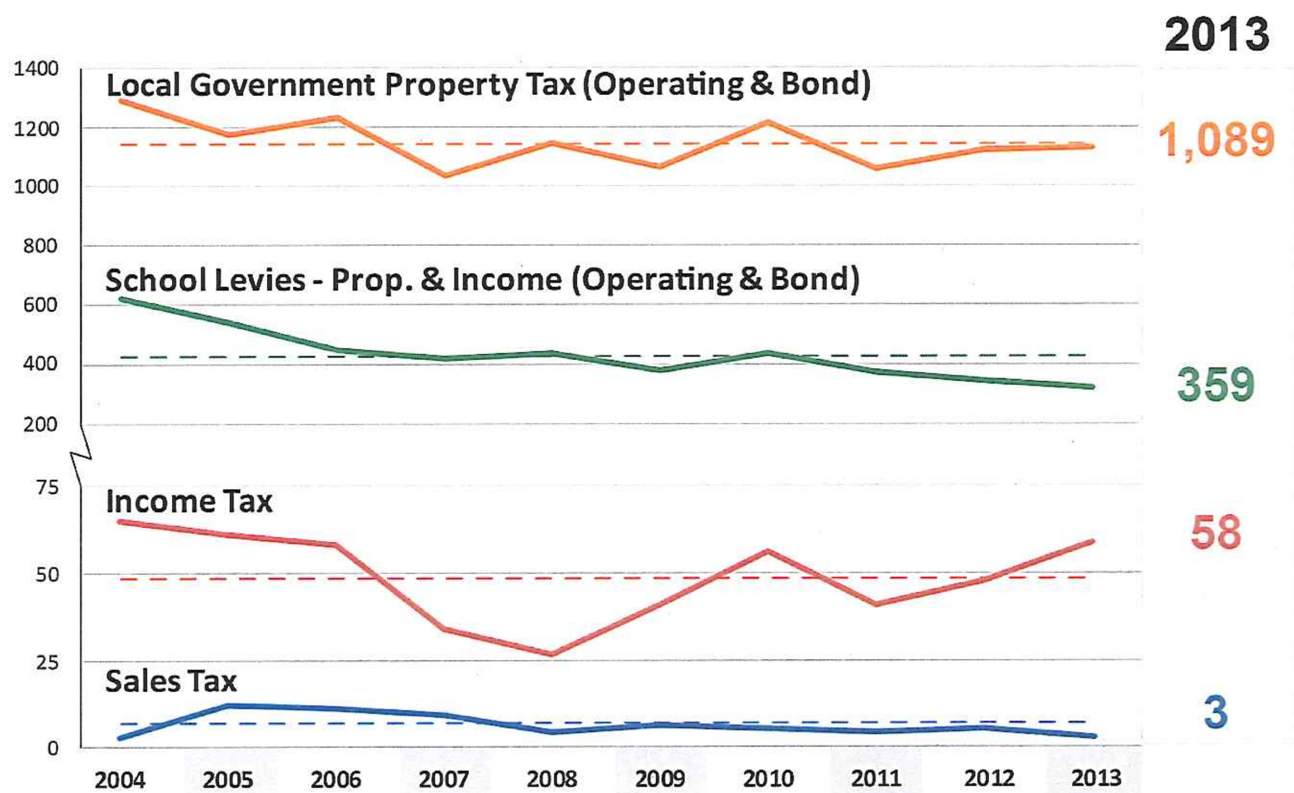
	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015
Stimulus (OBM- Blue Book)	540.8				
Casino (OBM- Blue Book)			147.6	278.5	297.7
Estate (OBM- Blue Book)	302.1	400.0	60.0		
Other Local Taxes (US Census Bureau)	761.5	771.4	781.4	791.6	801.9
Local Sales (OH Dept. of Tax, OBM)	1,826.9	1,931.1	1,998.0	2,130.3	2,252.6
Federal Revenue (U.S. Census Bureau)	2,281.0	2,281.0	2,281.0	2,281.0	2,281.0
Income (OH Tax, OBM & Global Insights)	4,620.4	4,855.1	5,059.1	5,331.0	5,617.6
Property (OH Dept. of Tax & OBM)	12,892.0	12,865.1	13,308.8	13,923.6	14,479.6
Other Local Revenue (US Census Bureau)	12,502.0	12,839.6	13,172.3	13,172.3	13,172.3
State Support (OBM Blue Book + HB59 as passed)	14,075.3	13,122.4	12,965.1	13,640.4	14,197.2
Total with Stimulus	49,802.0	49,065.6	49,773.3	51,548.6	53,099.9
Total without Stimulus	49,261.2				

Sources: *Ohio Office of Budget and Management - Blue Book*

$$ in millions

10-yr. History Local Ballot Issues

The number of local levies this fall and at each prior election in 2013 is below the 10-year historical average.



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total Levies	1,978	1,780	1,741	1,494	1,611	1,480	1,706	1,469	1,513	1,509

10-year Average

1142.3
across 3,685 agencies

430.6
across 938 School and JVS Districts

48.9
across 938 Cities and Villages

6.2
across 88 counties and 8 transit authorities

1628.0
Total Average

Sources: *Ohio Secretary of State*

Our world is changing…

Why Shared Services Now?

- New Fiscal Reality
- Technology
- Awareness & Culture
- Demographics

Intergovernmental Shared Services Authority

9.482…

> “a political subdivision may enter into a contract with another political subdivision to exercise any power, perform any function, or render any service for the other political subdivision that they are otherwise legally authorized to exercise, perform, or render.”

Beyond Boundaries

A Shared Services Action Plan

Reduce Costs | Expand Shared Services | Use 21st Century Technology | Improve Services

| Home | In The News | Tool Kit | OBM |

Select Section To Learn More

Technology
Education
Administration
Public Safety/ 911 Systems
Economic Development
Fleet Mgmt & Operations
Health & Human Services
Facilities

State Support for Efficiency

Tool Kit To Implement Shared Services

This section details Promising Practices and successful examples of collaboration that have been identified during the course of developing "Beyond Boundaries". They are organized by each of the nine Shared Services categories that were included in the survey and evaluated by the deliverables team. This is not an exhaustive or complete compilation of what is happening in the state of Ohio, but it is the most comprehensive to date. The nine categories are: technology, administration, economic development, health and human services, educational instructional support, public works, public safety/911 systems, fleet management and operations, and facilities.

Promising practices are an explanation of an approach or a program within a shared services category. It may also detail findings about optimum economies of scale or reveal centers of excellence or leading providers in that shared services category. The examples are more often local projects that exemplify a successful collaborative arrangement. Where possible, contact information is provided so a reader can find out more about a promising practice, to participate in an existing program, or to find out more about starting a similar collaborative effort in their community. The designation of what type of information the contact can provide are noted through these icons:

Key for Section's Contatct information:

info — To find out more about this promising practice

join — To find out more about joining their program

start — To find out more about starting a similar collaborative effort in your community

Shared Services Categories

- Technology
- Administration
- Public Works
- Public Safety
- Educational Programs & Support
- Economic Development
- Health and Human Services
- Fleet Management and Operations
- Facilities

Job-A-Bego


OPPORTUNITY
JOB NETWORK
Delaware | Knox | Marion | Morrow
www.OpportunityJobNetwork.com
Morrow
Knox
Resume & Cover Letter Developm
Interview Practice & Prep

P.L.A.Y (play and language for autistic youngsters)

Thursday, August 30th, 2012

By Shelley Grieshop

Autism program grabs state's attention

Nine counties share therapy program

COLDWATER - A blonde-haired boy happily bounced on playground equipment in the park as his therapist told his story.

Before the child's parents were introduced to the Play and Language for Autistic Youngsters Project, the 3-year-old frequently buried his head in the carpet, kept to himself and would not talk, Colleen Zunk said. Weeks

Questions? Contact me

Randy.Cole@obm.state.oh.us

614-949-1182

@crandycole (Twitter)

www.beyondboundaries.ohio.gov

OBM

As of Feb. 4, 2014, the most recent balances of outstanding state loans from the FUA are:

State	Loan Balance	Began Borrowing
Arkansas	$117,171,233.93	Mar. 2009
California	$10,000,352,302.86	Jan. 2009
Connecticut	$573,439,548.60	Oct. 2009
Delaware	$71,429,695.03	Mar. 2010
Georgia	$178,330,018.89	Dec. 2009
Indiana	$1,424,400,706.21	Dec. 2008
Kentucky	$673,638,133.99	Jan. 2009
Missouri	$321,450,889.81	Feb. 2009
New Jersey	$64,344,618.24	Dec. 2013
New York	$3,244,548,592.18	Jan. 2009
North Carolina	$1,837,734,131.89	Feb. 2009
Ohio	$1,619,600,289.88	Jan. 2009
Pennsylvania	$26,579,319.67	Jan. 2014
Rhode Island	$126,387,121.03	Mar. 2009
South Carolina	$456,512,366.54	Dec. 2008
Virgin Islands	$84,306,176.41	Aug. 2009
Wisconsin	$393,454,851.80	Feb. 2009
Total	$21,213,679,996.96	

Source: U.S. Dept. of Labor, Employment and Training Administration.

As Introduced

130th General Assembly
Regular Session
2013-2014

H. B. No. 329

Representative Hall

Cosponsors: Representatives Retherford, DeVitis, Henne, Letson, Romanchuk, Brown, Thompson, Grossman, Scherer, Smith, Blair, Terhar, Hackett, Conditt

A BILL

To require the Director of Budget and Management to make payments on the balance of amounts borrowed by the state from the federal government to issue unemployment benefits and to make an appropriation.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF OHIO:

Section 1. There is hereby appropriated from the General Revenue Fund $404,000,000 for the Director of Budget and Management to make payments to the United States Secretary of the Treasury on the balance of amounts borrowed by the state from the federal government to issue unemployment benefits from the state's Unemployment Compensation Trust Fund. The Director of Budget and Management shall fully expend the aforementioned amount for this purpose by June 30, 2015. The Director of Budget and Management may establish new appropriation items as determined necessary by the Director to facilitate the payments.

TO: OMA Tax Committee
FROM: Rob Brundrett
DATE: February 20, 2014
SUBJECT: Tax Policy Highlights

Overview

The General Assembly returned from their winter/holiday break in mid-January. On the tax front, the severance tax has dominated most of the debate over the first two months of the year. However, several other bills including income tax reduction and CAT credits have been the subject of committee hearings. The Governor's mid-biennium review will be introduced either late February or early March. There remains a large concern that a CAT rate hike will be included in legislation this spring. The House has named Representative Jeff McClain (R-Upper Sandusky) as the new Ways and Means Committee Chairman replacing Representative Peter Beck (R-Mason) who is under criminal indictment.

State Financial Condition

Real GDP expanded at an annual rate of 3.2% in the fourth quarter, down from the 4.1% rate in the third quarter. Year-over-year growth was 2.7%.

Ohio employment increased by 5,000 jobs in December. The Ohio unemployment rate decreased to 7.2% in December.

Leading economic indicators remain consistent with uninterrupted growth at a modest pace across the country and in Ohio.

Tax Reform Hearings

The House of Representatives created a Tax Reform Study Committee which held tax reform hearings across the state during the summer and into the fall. The OMA and several OMA members provided testimony for the committee. Representative Gary Scherer (R-Circleville) who chaired the committee and recently named House Ways and Means Vice Chairman, has been working to finish the Committee's recommendations. The report is expected at any time.

Not to be outdone by the House, the Ohio Senate began to have tax reform hearings last fall. The OMA provided testimony for the committee. Senate leadership indicated they are in favor of more comprehensive tax reform to pass this spring, probably in the MBR bill.

The Governor's office continues to review Ohio's taxes and is looking for an opportunity to lower the overall income tax burden in the state. More recently the Governor said he wanted the personal income tax rate below 4% which is lower than the 5% goal he set earlier in his term.

Tax Legislation

House Bill 5

After almost a full year of hurry up and wait House Bill 5 passed the House floor in November. That capped off almost a year of testimony and aggressive lobbying by both the proponents and the opponents of the bill. The Senate has had the bill since November but has yet to hold a hearing on the bill. It appears that some members of the Senate leadership team have strong concerns regarding the bill. The bill appears stalled for the time being, but may be revived as debate begins on the MBR later this month.

House Bill 135

Representative Dorothy Pelanda (R-Marysville) introduced a bill to rehab vacant industrial buildings. This is modeled on a bill from Indiana. The bill originally included a CAT credit which the OMA was able to successfully remove from the bill. It is currently pending in Senate committee and has not had a hearing since November.

Senate Bill 149/House Bill 219

Representative Jim Butler (R-Oakwood) and Senator Bill Beagle (R-Tipp City) have introduced companion bills that would authorize nonrefundable tax credits against the CAT for businesses that contribute to economic development projects undertaken by local governments and nonprofit businesses. The credit is equal to 60% of a business' contribution to a project primarily benefiting a rural area, and 50% of a contribution to a project benefiting an urban area. There is concern with these bills that they will erode the CAT base creating more pressure to increase the CAT rate on businesses. The OMA sent letters to both sponsors and has worked with them and the committee chairmen to remove the CAT credits from the bills.

Senate Bill 210

Senator Chris Widener (R-Springfield) quickly moved to introduce legislation following the Medicaid expansion controlling board vote that would take the expected savings from expansion and provide a permanent income tax rate reduction of 4% for all tax brackets beginning in 2014. That would put the highest bracket at 5.176%. The bill had its third hearing this week.

Senate Bill 228

Senator Chris Widener (R-Springfield) introduced legislation in the wake of the controlling board Medicaid expansion vote that would limit the controlling board's authority to approve the expenditure of certain federal and nonfederal funds that are received in excess of the amount appropriated or are not anticipated in the current biennial appropriations act. The bill also requires information about selected non Ohio companies and requires agencies to contact Ohio entities who did not respond to an RFP. The bill was voted out of the Senate is pending in a House committee.

House Bill 230

Representative Cheryl Grossman (R-Grove City) has recently introduced and provided sponsor testimony on HB 230. This bill creates a refundable CAT credit for a business that donates food inventory to charitable organizations, equal to a percentage of a federal income tax deduction taken by the business for the same donation. This bill also puts pressure on the CAT rate. The OMA has expressed its concerns with Rep. Grossman and has offered language that could create a transparent grant program.

House Bill 246

Representatives Terry Blair (R-Washington Twp.) and John Rogers (D-Mentor on the Lake) introduced HB 246 that allows an employer who hires a recent post-secondary graduate to deduct over five years, all or a percentage of the employer's costs of employing that graduate from the employer's gross receipts subject to the commercial activities tax. This is another concern for manufacturers. While not as bad as a credit is still creates a hidden deduction that could eventually impact the CAT rate. OMA met with Rep. Blair and Chairman Beck on this bill to stress our concerns.

House Bill 328

Representatives Ron Young (R-Leroy) and Christina Hagan (R-Alliance) introduced legislation from the House that would modify the authority of the controlling board to approve certain expenditures. This was reaction to the controlling board vote to expand Medicaid in the state of Ohio. The bill had a second hearing late in January.

House Bill 336

House Bill 336 sponsored by Reps Dave Hall (R-Millersburg) and Sean O'Brien (D-Hubbard) would provide tax breaks to consumers and businesses who purchase new vehicles or convert existing vehicles to run on natural gas. The bill also provides a phase in for the motor-fuel tax collections for compressed natural gas.

The bill remains a concern because one of the tax breaks included in the bill is a CAT credit for the purchase of a new alternative fuel vehicle or conversion of a traditional fuel vehicle to an alternative fuel vehicle.

House Bill 375

In December House Speaker Pro Tem Matt Huffman (R-Lima) introduced legislation supported by the House Speaker that would increase the state's severance tax. The legislation drafted by House leadership and a portion of the oil and gas industry in Ohio would exclude the oil and gas industry from the CAT.

A substitute version of the bill was accepted last week in the House Ways and Means Committee. The latest version removes the CAT exclusion for C corps but includes the exclusion for pass throughs. The bill in its current form does not have very many supporters and the House needs to do more work before a committee vote. Since it has taken them until almost to the end of February there is a real possibility the Governor may try again with his version in the MBR.

Mid-Biennium Review

The Governor's office is preparing another mid-biennium review (MBR) bill this winter. The MBR bill is a comprehensive policy bill touching all aspects of state government, including the Ohio Department of Taxation and taxing issues. There have been no official announcements about what the MBR might contain. However rumor and speculation would indicate there will be something impacting the CAT and the income tax; including an increase in the CAT rate to .30%.

Tax news
Representative Peter Beck (R-Mason) lost his chairmanship of the House Ways and Means Committee. Earlier this month it was announced that he would be facing an additional 53 felony counts on top of the 16 counts previously announced in July 2013. The criminal charges stem from activities by a software company where Beck served as the chief financial officer.

The Speaker released a statement asking for Beck to resign and that it was decided he should no longer chair the Ways and Means Committee. As of this week Representative Beck has yet to resign his seat in the legislature.

The Speaker named Jeff McClain (R-Upper Sandusky) as the new Ways and Means Chairman. Rep. McClain was previously Vice Chairman of the Finance and Appropriations Committee. Gary Scherer (R-Circleville) was named the new Vice Chairman of the House Ways and Means Committee. Representative Terry Boose (R-Norwalk) was moved from Vice Chair of Ways and Means to Vice Chair of Finance and Appropriations.

Chairman of the Board
RICK SCHOSTEK
Senior Vice President, Honda of America Manufacturing

President
ERIC L. BURKLAND

The Ohio Manufacturers' Association

December 4, 2013

The Honorable Jim Butler
Ohio House of Representatives
77 S. High St., 13th Floor
Columbus, OH 43215

RE: House Bill 219

Dear Representative Butler:

The Ohio Manufacturers' Association (OMA) has been an ardent supporter of the 2005 tax reforms including the creation of the commercial activity tax (CAT). Some of the most important aspects of the CAT are its broad base, its low rate, and its broad application to business entities. Those attributes can only be maintained when the state stands firm against individual carve-outs and exemptions.

According to the Ohio Department of Taxation in a report dated March 12, 2013 in fiscal year 2012 manufacturers made up the third largest group of CAT taxpayers, at 10.1%. At the same time, in terms of CAT liability manufacturers made up the largest share, at 27.3% of the total. Manufacturers are concerned that any new carve-outs, exemptions, or credits could provide strain on the CAT forcing an increase in its rate.

H.B. 219 authorizes a nonrefundable tax credit against the CAT for businesses that contribute to economic development projects undertaken by local governments and nonprofit corporations. While manufacturers agree economic development is important and in some case must be incentivized; creating a credit against the CAT gives us great pause.

The General Assembly has only allowed a handful of credits against the CAT since its inception in 2005. We urge the General Assembly to stay strong against new carve-outs, credits and exemptions. If not we risk following the path of the ineffective and exemption riddled corporate franchise tax.

Thank you for your time and we would be happy to discuss this matter further in hopes to finding a workable solution that can benefit all parties.

Sincerely,

Robert A Brundrett

Robert Brundrett
Director, Public Policy Services
Ohio Manufacturers' Association

33 N. High St., 6th floor
Columbus, Ohio 43215-3005

Phone: 614-224-5111 • Toll free: 800-662-4463
Fax: 614-224-1012

oma@ohiomfg.com
WWW.OHIOMFG.COM

Ohio Legislative Service Commission

Bill Analysis Megan Cummiskey and Mackenzie Damon

H.B. 336

130th General Assembly
(As Introduced)

Reps. O'Brien and Hall, Stautberg, Celebrezze, Ashford, Baker, Barborak, Barnes, Beck, Bishoff, Blair, Boose, Boyd, Brown, Buchy, Burkley, Butler, Cera, Clyde, Conditt, Curtin, Damschroder, Derickson, DeVitis, Dovilla, Duffey, Fedor, Gerberry, Green, Grossman, Hackett, C. Hagan, R. Hagan, Henne, Hill, Hottinger, Johnson, Landis, Letson, Lundy, Maag, Mallory, McClain, Patmon, Patterson, Pelanda, Phillips, Ramos, Redfern, Retherford, Roegner, Rogers, Romanchuk, Ruhl, Schuring, Sheehy, Slaby, Slesnick, Smith, Stinziano, Thompson, Williams, Winburn

BILL SUMMARY

- Subjects compressed natural gas to the motor fuel tax, measured by gallon equivalents.
- Phases in the motor fuel tax rate for compressed natural gas over five years, with a rate of 7¢ per gallon in the first three years, 14¢ per gallon in the following two years, and the full 28¢ per gallon thereafter.
- Exempts gross receipts from the sale of compressed natural gas from the commercial activity tax, but subjects those receipts to the motor fuel receipts tax.
- Reduces the amount of sales tax due on the purchase or lease of a qualifying electric vehicle by up to $500 for purchases and leases before 2015.
- Authorizes a nonrefundable income tax or commercial activity tax credit for the purchase of a new alternative fuel vehicle or the conversion of a traditional fuel vehicle to an alternative fuel vehicle.
- Provides that the credit equals 50% of the adjusted purchase price of the vehicle or of the cost of the conversion parts and equipment, subject to a per-vehicle cap of between $5,000 and $25,000 depending on gross vehicle rating.
- Limits the credit to alternative fuel vehicles purchased or converted within five years after the bill's effective date.
- Establishes the Gaseous Fuel Vehicle Conversion Program, to be administered by the Director of Environmental Protection.
- Permits the Director to make grants to eligible public entities and nonprofit corporations for the purpose of promoting the use of vehicle fleets that operate on cleaner fuels.
- Makes an appropriation.

CONTENT AND OPERATION

Taxation of compressed natural gas under the motor fuel tax

The bill subjects compressed natural gas to Ohio's existing motor fuel tax. Under continuing law, Ohio levies an excise tax on all motor vehicle fuel used, distributed, or sold within Ohio and used to generate power for the operation of motor vehicles on Ohio public roads. This tax is levied at a rate of 28¢ per gallon and generally is payable by motor vehicle fuel wholesalers and distributors. Under current law, taxable motor fuel includes liquid motor fuels such as gasoline, diesel, kerosene, liquid petroleum gas, and liquid natural gas.[1]

The bill expands the definition of motor fuel to include compressed natural gas, subjecting compressed natural gas to the motor fuel tax if it is to be used to fuel vehicles on public roads in Ohio.[2] However, unlike liquid motor fuel, which, except for liquid natural gas, is taxed according to gallons received, the tax on compressed motor fuel is measured according to gallon equivalents. For compressed natural gas that is received through a dispenser capable of measuring gallons, the gallon equivalent standard is 5.67 pounds of compressed natural gas. For all other compressed natural gas, the gallon equivalent standard is either 126.67 cubic feet of compressed natural gas or the amount of compressed natural gas that has a lower heating value of 114,100 BTUs.[3]

Temporary rate reduction

The bill phases in the 28¢-per-gallon motor fuel tax rate for compressed natural gas over five years. For the first three years, beginning in the first month after the bill's effective date, the rate equals 7¢ per gallon. For the following two years, the rate equals 14¢ per gallon. After five years, the rate increases to the full 28¢-per-gallon rate.

[1] R.C. Chapter 5735.

[2] R.C. 5735.01.

[3] R.C. 5735.012 and 5735.015.

Revenue collected both during and after the phase-in period is credited and distributed in the same proportion and manner as motor fuel tax collected under existing law.[4]

Taxation of compressed natural gas receipts

By defining compressed natural gas as a form of motor fuel, the bill excludes receipts from the sale of compressed natural gas from the commercial activity tax (CAT) and instead subjects those receipts to a recently enacted tax on motor fuel receipts. Under continuing law, the CAT is a tax levied at a rate of 0.26% of taxable gross receipts from sales or exchanges in Ohio.[5] Beginning July 1, 2014, motor fuel receipts are excluded from the tax base of the CAT.[6] Taxation under the CAT then is replaced, as it applies to receipts from the sale or exchange of motor fuel, with a separate tax – the "motor fuel receipts tax" (MFRT). The MFRT is modeled on the CAT, but is based solely on receipts from one sale or exchange of motor fuel.

When motor fuel receipts were taxed under the CAT, the tax applied to receipts from most transactions involving the sale or exchange of motor fuel. Unlike the CAT, which could have applied to multiple transactions involving the same motor fuel, the MFRT was designed to apply to only one transaction in the motor fuel distribution chain – the first transaction in which motor fuel is sold for delivery to a location in the state. The rate of the MFRT is 0.65% of a taxpayer's motor fuel receipts.[7]

The MFRT uses the definition of motor fuel located in the motor fuel tax law.[8] The bill, by expanding the definition of motor fuel for purposes of the motor fuel tax, excludes from the CAT gross receipts from the sale of compressed natural gas in Ohio and subjects those receipts to the MFRT, beginning July 1, 2014.[9]

Electric vehicle sales tax reduction

The bill authorizes a reduction in the amount of sales and use tax that would otherwise be owed on the purchase or lease of a qualifying electric vehicle. The tax reduction equals the lesser of $500 or the amount of the tax otherwise due. If the vehicle is procured for personal use by an individual consumer, then the reduction applies to

[4] R.C. 5735.016.

[5] R.C. Chapter 5751.

[6] R.C. 5751.01(F)(2)(r), not in the bill.

[7] R.C. Chapter 5736.

[8] R.C. 5736.01, not in the bill.

[9] R.C. 5735.01.

one purchase or lease of a qualified vehicle per year. If the vehicle is procured for use in a business, then the reduction applies to the purchase or lease of up to ten qualified vehicles per year.[10]

To qualify for the sales tax reduction, a vehicle must meet the following requirements:

(1) Be a four-wheeled vehicle manufactured primarily for use on public highways and not modified from its original manufacturer specifications;

(2) Have a maximum speed capability greater than or equal to 55 miles per hour;

(3) Be propelled "to a significant extent" by an electric motor that draws power from a battery with a capacity of at least four kilowatt-hours that can be recharged via an external source of electricity;

(4) Be registered in Ohio for operation on public highways;

(5) Be purchased or leased for personal or business use and not for the purpose of resale on or after the bill's effective date, but before January 1, 2015.[11]

Under current law, the purchase of motor vehicles that are registered in Ohio are subject to the state's sales or use tax and the use tax of the county or transit authority territory where registered. The state sales and use tax rate is 5¾%; county and transit authority rates currently range from ¼% to 2¾%. The reduction in tax would affect state, county, and transit authority tax collections in proportion to the relative rates of those taxes in the jurisdiction where the vehicle is first registered.

Alternative fuel vehicle tax credit

The bill authorizes a nonrefundable credit against the income tax or commercial activity tax for the purchase or conversion of an alternative fuel vehicle. An alternative fuel vehicle includes any vehicle, including a bi-fueled or dual-fueled vehicle, that is registered for use on public highways and that runs on compressed natural gas, liquid natural gas, or liquid petroleum gas (e.g., propane).

To qualify for the credit, a taxpayer must purchase a new alternative fuel vehicle, or convert a traditional fuel vehicle (i.e., a vehicle that runs on gasoline or diesel) to an alternative fuel vehicle, within five years after the bill's effective date. The purchase of a new alternative fuel vehicle must meet the following conditions:

[10] R.C. 5739.025(H)(2).

[11] R.C. 5739.025(H)(1); Section 3.

(1) The taxpayer must purchase the vehicle from an original equipment manufacturer, automobile retailer, or after-market conversion facility;

(2) The taxpayer must be the first person to purchase the vehicle for personal use or for use in business and not for resale;

(3) The alternative fuel technology used in the vehicle must have received a compliance designation or been certified by the U.S. Environmental Protection Agency for new or intermediate use;

(4) If the vehicle runs on compressed natural gas, at least five years must remain until the date established by the manufacturer of the fuel tank as the end-of-life date for the tank.

Credit amount

The amount of the credit equals 50% of the adjusted purchase price of the new alternative fuel vehicle or 50% of the cost of equipment and parts needed to convert a traditional fuel vehicle, subject to a per-vehicle cap based on the vehicle's gross vehicle rating. The "adjusted purchase price" of a new vehicle is the portion of the price of the vehicle that is attributable to the parts and equipment used for the storage of alternative fuel, the delivery of alternative fuel to the motor, or the exhaust of gases from the combustion of alternative fuel. For a converted vehicle, the cost of conversion parts and equipment may not include the cost of any parts and equipment that have previously been used to modify or retrofit another traditional fuel vehicle. For either a purchase or a conversion, the credit is limited to the one of the following amounts:

(1) If the vehicle has a gross vehicle rating of 8,500 pounds or less, $5,000;

(2) If the vehicle has a gross vehicle rating of between 8,500 and 10,000 pounds, $10,000;

(3) If the vehicle has a gross vehicle rating of more than 10,000 pounds, $25,000.

Credit carry-forward and pass-through treatment

A taxpayer may claim the credit for the taxable year or tax period in which the taxpayer purchases the new vehicle or the conversion parts and equipment. The credit allowed for a vehicle may be claimed against either the income or commercial activity tax, but not both. If the credit exceeds the taxpayer's tax liability for that year or tax period, the taxpayer may carry the credit forward to future years or tax periods until it is fully used.

The bill allows the equity owners of a pass-through entity that purchases or converts a vehicle to claim their proportionate or distributive share of the credit against the income tax.[12]

Gaseous Fuel Vehicle Conversion Program

The bill requires the Director of Environmental Protection to administer the Gaseous Fuel Vehicle Conversion Program. The purpose of the Program is to promote the conversion of public fleets to operate on cleaner fuels. Under the Program, the Director may make grants to eligible public entities and nonprofit corporations for the conversion of a vehicle to operate on gaseous fuel or for the incremental cost associated with the purchase of a vehicle originally equipped by the manufacturer to operate on gaseous fuel. "Incremental cost" means the excess cost associated with the purchase of a vehicle originally equipped by the manufacturer to operate on gaseous fuel as compared to the purchase of an equivalent vehicle that operates on gasoline or diesel fuel.[13]

Under the bill, "gaseous fuel" means compressed natural gas, liquefied natural gas, or liquid petroleum gas. "Compressed natural gas" means a clear, odorless, and noncorrosive natural gas that is compressed to a pressure of at least 3,800 pounds per square inch but less than 4,500 per square inch. "Liquefied natural gas" means natural gas that is cooled to -260 Fahrenheit and is in a liquefied state. "Liquid petroleum gas" means a material with a vapor pressure not exceeding that of commercial propane which is composed predominately of the following hydrocarbons or mixtures: propane, propylene, normal butane or isobutane, and butylene.[14]

Entities eligible to receive Program grants

Under the bill, the Director may make grants to the following entities:[15]

(1) State agencies;

(2) Political subdivisions of the state;

(3) City, local, exempted village, or joint vocational school districts;

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[12] R.C. 5747.89, 5747.98, 5751.55, and 5751.98.

[13] R.C. 122.079(A) and (B).

[14] R.C. 122.079(A).

[15] R.C. 122.079(A) and (B); R.C. 1702.01, not in the bill.

(4) County transit systems, regional transit authorities, or regional transit commissions;

(5) Nonprofit corporations (domestic or foreign corporations formed otherwise than for the pecuniary gain or profit of, and whose net earnings or any part of them is not distributable to, its members, directors, officers, or other private persons).

Rulemaking

The bill requires the Director to adopt rules in accordance with Ohio's Administrative Procedure Act[16] that are necessary for the administration of the Program. The rules must establish all of the following:[17]

(1) An application form and procedures governing the process for applying to receive a grant under the Program;

(2) Grant eligibility requirements;

(3) A maximum grant amount of $500,000 per eligible entity;

(4) Any other procedures, criteria, or grant terms that the Director determines necessary to administer the Program.

Gaseous Fuel Vehicle Conversion Fund and appropriation

The bill creates the Gaseous Fuel Vehicle Conversion Fund in the state treasury. The Fund is to consist of money transferred to the Fund by the General Assembly. Money in the Fund must be used solely to make grants under the Program. Any interest earned from money in the Fund must be used to administer the Program.[18]

The bill appropriates $16 million per year in fiscal years 2014 and 2015 to the Gaseous Fuel Vehicle Conversion Fund. The amounts appropriated are to be transferred from the General Revenue Fund. The bill also states that it is the General Assembly's intent to continue appropriating to the Gaseous Fuel Vehicle Conversion Fund $16 million per fiscal year through the end of fiscal year 2018.[19]

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[16] R.C. Chapter 119., not in the bill.

[17] R.C. 122.079(C).

[18] R.C. 122.079(D).

[19] Sections 4 through 6.

HISTORY

ACTION	DATE
Introduced	11-06-13

H0336-I-130.docx/ks

Ohio Department of TAXATION

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Table CAT 1&2
No. 44 & 45 (2013)
March 12, 2013

COMMERCIAL ACTIVITY TAX: Number of Taxpayers and Tax Return Data, Fiscal Year 2012

The commercial activity tax went into effect on July 1, 2005. It is a privilege tax measured by gross receipts from activities in this state. The tax is a key component of the 2005 tax reform package enacted by Am. Sub. House Bill 66 (126th General Assembly). Major business tax components of the act consist of the phase-out of both the tangible personal property tax and the corporate franchise tax and the phase-in of the commercial activity tax.

The tax is levied and paid on a quarterly or annualized basis. Taxpayers with annual taxable gross receipts above $1 million must report and pay the tax quarterly. Taxpayers whose annual taxable gross receipts are between $150,000 and $1 million are considered annual taxpayers and are subject only to the $150 minimum tax. Taxpayers with annual gross receipts below $150,000 are not subject to the commercial activity tax.

The attached CAT-1 and CAT-2 tables reflect information reported on tax returns that were due and filed during fiscal year 2012. For quarterly taxpayers, these returns reflect activity for the April 2011 to March 2012 period; the returns were due and filed in August 2011, November 2011, February 2012 and May 2012. In addition, the data include tax returns filed by annual taxpayers for the calendar year 2012 period; the returns were due in May 2012. Several notable factors affecting the data in these tables are explained below.

- Ohio law phased-in the commercial activity tax rate over a five-year period that began in July 2005. The fully phased-in 0.26% tax rate took effect on April 1, 2009 (first impacting fiscal year 2010 tax revenues), and is reflected in the attached tables.
- Each combined and consolidated taxpayer group is shown as a *single entity* in these tables. In the CAT-1 table, the combined or consolidated group is reported under the primary filer's industry code. In the CAT-2 table, the entire group's gross receipts determine the size category in which the group is placed.

As shown in these tables, the total reported commercial activity tax liability before credits for fiscal year 2012 is $1,658.5 million. Of this amount $22.7 million is attributable to the minimum tax and $1,635.8 million is attributable to the 0.26% tax rate. Taxable gross receipts amount to $712.1 billion but the exclusion available on each return reduces taxable receipts by $82.9 billion, or 11.6%; the resulting net taxable gross receipts amount to $629.2 billion.

Table CAT-1 shows tax return information for 19 industrial sectors. The industrial sector data is based on each taxpayer's reported primary business activity, using the North American Industry Classification System (NAICS). The retail sector comprises the largest group of taxpayers, accounting for 12.8% of all taxpayers. This is followed by taxpayers in the unclassified (10.2%), manufacturing (10.1%), professional, scientific and technical services (9.3%), and construction (9.3%) categories. In terms of tax liability, manufacturers account for the largest share at 27.3% of the total. The retail (20.1%) and wholesale (16.0%) sectors account for the next largest shares of total liability.

Table CAT-2 provides tax return information based on the size of each taxpayer's taxable gross receipts (prior to the exclusion). Filers whose fiscal year 2011 taxable gross receipts were $1 million or below account for 68.8% of all returns, but only 0.9% of the total liability. Filers with taxable gross receipts above $1 billion comprise less than 0.1% of all returns but account for 25.5% of total tax liability.

Data contained in these tables is derived from commercial activity tax returns filed by taxpayers with the Ohio Department of Taxation.

Fiscal Year 2012 Commercial Activity Tax Returns:
Number of Returns and Reported Financial Data, by Industrial Classification (a)
Dollar amounts are in 1,000's

Industrial Sector	NAICS Code Ranges	Number of Taxpayers	Taxable Gross Receipts	Exclusion (b)	Net Taxable Gross Receipts	Tax at 0.26% Rate	Annual Minimum Tax (c)	Tax Before Credits	Non-refundable Tax Credits	Refundable Tax Credits	Total Tax Due: 0.26% Tax and Minimum Tax
Agriculture, Forestry, and Fishing	111100-115310	6,077	$6,814,795	$2,906,649	$3,908,145	10,161	$919	$11,080	$5	$12	$11,060
Mining	211110-213110	745	$5,661,679	$432,789	$5,228,889	13,595	$109	$13,704	$183	$155	$13,364
Utilities (excluding telecommunications)	221100-221300	154	$16,606,767	$100,685	$16,506,082	42,916	$23	$42,939	$292	$0	$42,647
Construction	236110-238900	14,337	$32,812,682	$7,461,605	$25,351,078	65,913	$2,083	$67,996	$26	$115	$67,791
Manufacturing	311110-339900	15,700	$191,748,675	$10,966,741	$180,781,935	470,033	$2,301	$472,334	$23,809	$9,140	$435,612
Wholesale Trade	423100-425120	8,802	$104,450,216	$6,038,690	$98,411,527	255,870	$1,288	$257,158	$331	$515	$256,184
Retail Trade	441110-454390	19,851	$136,407,010	$11,812,510	$124,594,500	323,946	$2,900	$326,845	$349	$5,847	$320,656
Transportation and Warehousing	481000-493100	4,330	$16,082,490	$2,446,866	$13,635,623	35,453	$632	$36,084	$36	$421	$35,615
Information (including telecommunications)	511110-519100	1,593	$27,575,364	$944,703	$26,630,661	69,240	$229	$69,469	$2,068	$414	$66,915
Finance and Insurance	522110-525990	5,535	$9,426,081	$2,014,278	$7,411,802	19,271	$808	$20,078	$0	$450	$19,631
Real Estate, and Rental & Leasing of Property	531110-533110	12,974	$16,430,121	$5,732,743	$10,697,378	27,813	$1,899	$29,712	$8	$0	$29,714
Professional, Scientific and Technical Services	541110-541990	14,435	$38,066,512	$7,262,390	$30,804,122	80,091	$2,112	$82,203	$248	$1,513	$80,394
Management of Companies (Holding Companies)	551111-551112	880	$36,313,624	$682,092	$35,631,532	92,642	$128	$92,769	$746	$7,342	$84,648
Administrative & Support Services, and Waste Management & Remediation Services	561110-562000	3,862	$9,203,570	$1,957,861	$7,245,709	18,839	$565	$19,403	$122	$1,165	$18,116
Education, Health Care and Social Assistance	611000-624410	11,833	$24,831,001	$6,988,236	$17,842,766	46,391	$1,728	$48,119	$157	$0	$47,960
Arts, Entertainment, and Recreation	711100-713900	1,515	$2,615,628	$701,297	$1,914,331	4,977	$221	$5,198	$0	$0	$5,201
Accommodation and Food Services	721110-722410	8,634	$15,590,323	$4,782,861	$10,807,462	28,099	$1,264	$29,363	$173	$0	$29,215
Other Services	811110-812990	7,947	$7,880,069	$3,634,394	$4,245,675	11,039	$1,175	$12,214	$151	$3	$12,060
Unclassified	n/a	15,755	$13,556,298	$6,053,420	$7,502,878	19,507	$2,290	$21,797	$22	$387	$21,379
TOTAL		**154,959**	**$712,072,902**	**$82,920,809**	**$629,152,093**	**1,635,795**	**$22,672**	**$1,658,467**	**$28,727**	**$27,479**	**$1,598,162**

(a) The total tax liability shown in this table does not match actual commercial activity tax revenues in fiscal year 2012. This is because the table reflects reported tax liability, not actual payments made. In addition, the table reflects information from tax returns posted in the department's database as of the dates when the August 2011, November 2011, February 2012 and May 2012 return data was extracted; any subsequently filed tax returns or subsequent corrections made to previously-filed tax returns are not reflected in this table.

(b) On a quarterly basis, each taxpayer's first $250,000 in taxable gross receipts is excluded from the 0.26% tax, resulting in an annual exclusion of $1 million per taxpayer.

(c) The annual minimum tax is $150. All taxpayers (annual taxpayers and quarterly taxpayers alike) are required to pay the annual minimum tax.

Fiscal Year 2012 Commercial Activity Tax:
Number of Returns and Reported Financial Data, by Size of Taxable Gross Receipts (a)
Dollar amounts are in 1,000's

Size of FY 2012 Taxable Gross Receipts (b)	Number of Taxpayers	Taxable Gross Receipts	Exclusion (c)	Net Taxable Gross Receipts	Tax at 0.26% Rate	Annual Minimum Tax (d)	Tax Before Credits	Non-refundable Tax Credits	Refundable Tax Credits	Total Tax Due: 0.26% Tax and Minimum Tax
Less than $1,000,000	106,609	$35,412,809	$34,983,121	$429,688	1,117	$15,306	$16,423	$0	$1,987	$14,457
$1,000,000 - $1,999,999	19,409	$27,752,488	$19,311,082	$8,441,406	21,948	$3,054	$25,002	$22	$127	$24,857
$2,000,000 - $2,999,999	8,204	$19,956,964	$8,142,792	$11,814,172	30,717	$1,244	$31,961	$46	$790	$31,135
$3,000,000 - $3,999,999	4,567	$15,765,416	$4,522,841	$11,242,575	29,231	$682	$29,913	$87	$1,825	$27,994
$4,000,000 - $4,999,999	2,747	$12,303,304	$2,705,919	$9,597,385	24,953	$405	$25,358	$37	$294	$25,030
$5,000,000 - $9,999,999	6,023	$42,076,981	$5,928,819	$36,148,161	93,985	$889	$94,874	$297	$1,311	$93,217
$10,000,000 - $24,999,999	4,070	$62,640,363	$4,015,293	$58,625,070	152,425	$601	$153,027	$720	$2,698	$149,409
$25,000,000 - $49,999,999	1,559	$54,340,616	$1,544,676	$52,795,939	137,269	$230	$137,500	$670	$1,766	$135,046
$50,000,000 - $99,999,999	867	$59,749,207	$860,247	$58,888,959	153,111	$127	$153,239	$1,828	$5,104	$146,157
$100,000,000 - $499,999,999	746	$151,426,623	$748,005	$150,678,618	391,764	$110	$391,875	$4,055	$5,107	$382,356
$500,000,000 - $999,999,999	95	$64,731,956	$95,000	$64,636,956	168,056	$14	$168,070	$4,723	$1,192	$161,386
$1 billion and above	63	$165,916,177	$63,014	$165,853,163	431,218	$9	$431,228	$16,241	$5,277	$407,118
TOTAL	**154,959**	**$712,072,902**	**$82,920,809**	**$629,152,093**	**1,635,795**	**$22,672**	**$1,658,467**	**$28,727**	**$27,479**	**$1,598,162**

(a) The total tax liability shown in this table does not match actual commercial activity tax revenues in fiscal year 2012. This is because the table reflects reported tax liability, not actual payments made. In addition, the table reflects information from tax returns posted on the department's database as of the dates when the August 2011, November 2011, February 2012 and May 2012 return data was extracted; any subsequently filed tax returns or subsequent corrections made to previously-filed tax returns are not reflected in this table.
(b) These categories reflect aggregate taxable gross receipts (before exclusion) as reported by taxpayers on returns that were due and filed during fiscal year 2012. For example, a taxpayer whose taxable gross receipts were $5 million, $6 million, $4 million, and $7 million, on returns filed in August 2011, November 2011, February 2012 and May 2012, respectively, would have total fiscal year 2012 taxable gross receipts of $22 million, and thereby would be included within the $10-$25 mllion category.
(c) On a quarterly basis, each taxpayer's first $250,000 in taxable gross receipts is excluded from the 0.26% tax, resulting in an annual exclusion of $1 million per taxpayer.
(d) The annual minimum tax is $150. All taxpayers (annual taxpayers and quarterly taxpayers alike) are required to pay the annual minimum tax.

Tax

House Unveils Severance Tax Sub Bill

The week the House unveiled Sub House Bill 375, a modified severance tax proposal. The newest version includes a higher severance tax rate on products extracted through horizontal wells and a mechanism to divide the proceeds from the severance tax among the Ohio Department of Natural Resources, local governments (impacted by drilling activity), and the income tax reduction fund.

The sub bill also offers an exclusion from the commercial activity tax (CAT) for proceeds of the sale of oil and gas by persons paying the severance tax and who are also subject to the income tax.

OMA tax counsel Mark Engel of Bricker & Eckler has prepared this analysis of the sub bill.

On February 20 the OMA tax committee will be discussing this bill and other important tax topics. Register here. *2/13/2014*

OMA Asks House to Leave CAT Out of Severance Tax Reform

This week in a letter to Rep. Matt Huffman (R-Lima), OMA expressed appreciation for House leadership's efforts to modernize the state's severance tax via House Bill 375, but cautioned against providing an exemption from the commercial activity tax (CAT) for the horizontal drilling industry.

Rob Brundrett, OMA Director, Public Policy wrote: "As introduced, H.B. 375 excludes horizontal drillers that pay the proposed horizontal well severance tax from paying the CAT on receipts realized on the sale of oil or natural gas. Excluding this industry from the CAT tax base narrows the base, reduces general revenue funds, and increases pressures to raise the rate. ... Please consider the principle of the CAT's broad base and low rate as the discussions move forward." *1/29/2014*

OMA Tax Committee to Discuss Growth of Local Government

Ohio's Controlling Board President, Randy Cole, has compiled a presentation detailing how local government has grown to more than 6,500 independent agencies with more than 500,000 employees requiring more than $50 billion a year to operate. He'll present at the OMA Tax Committee meeting on February 20.

To help schools and municipalities collaborate to be more efficient with tax dollars, the Kasich administration, in conjunction with local officials from across the state, developed Beyond Boundaries, a Shared Services Action Plan for Ohio Schools and Governments. This is a roadmap of public policy recommendations to make Ohio's public sector more efficient.

Register here for the OMA Tax Committee meeting on February 20 to learn more. *1/30/2014*

Small Biz? Don't Leave (Tax) Money on the Table!

The Ohio Department of Taxation issued this alert to Ohio businesses structured as pass-through entities to promote the 50% Small Business Tax Deduction, retroactive to January 1, 2013. The form and instructions are now available at the department's web site.

Frequently Asked Questions about the new 50% tax cut are also on the web site. Information and assistance are available at this toll-free Taxpayer Service line: 1-800-282-1780. *1/23/2014*

Key Tax Law Changes

Last year's W-2s and 1099s should be arriving in your mailbox or inbox soon. OMA Connections Partner, GBQ Partners LLC, tells us about the key tax law changes that took effect in 2013 *1/23/2014*

Bill Would Require Credit or Refund of Overpaid State Business Taxes

State Representatives Mike Duffey (R-Worthington) and Al Landis (R-Dover) joined Senators Bob Peterson (R-Sabina) and Bill Beagle (R-Tipp City), along with Ohio Tax Commissioner Joe Testa this week to introduce legislation requiring the Ohio Department of Taxation to notify Ohio businesses when they overpay their taxes.

House Bill 402 and Senate Bill 263 add the requirement to the tax commissioner's statutory duties and functions that taxpayers be notified of overpayments so they can claim a refund or allow the money to be credited toward their future taxes. Currently businesses must request the refunds and the state is under no obligation to inform businesses if they have overpaid.

The bills are in response to the Ohio Inspector General's report finding that the Ohio Department of Taxation failed to refund more than $30 million in state taxes overpaid by businesses and that the Department of Taxation often ignored requests for refunds. *1/30/2014*

OMA Following Ohio's Unemployment Comp. Debt Issue

Ohio was one of 14 states that was subject to a federal reduction in FUTA credit on its IRS Form 940 for 2013; credit reductions ranged from 1.2% to 0.6%. Ohio's reduction was 0.9%. As of November of last year Ohio's outstanding Title XII loan balance was $1,552,639,928.74.

At its last tax committee meeting in the fall, OMA asked guest speaker, Ohio Office of Budget and Management Director, Tim Keen, about the state's plan to pay down its UC debt. Director Keen was very aware of the situation and said it should be a high priority for the state and businesses alike.

The state has been making the interest payments since 2011 totaling more than $180 million. There has been talk about bonding the debt. However, constitutional hurdles need to be cleared for this to be a viable option. The General Assembly has also introduced a bill that would use the projected $400 million the state would save through Medicaid expansion to help pay down the debt.

In the meantime, manufacturers face escalating UC assessments. This will be a topic of focus at the next OMA tax committee on February 20. Ohio Department of Jobs and Family Services, which regulates Ohio's unemployment compensation, has been invited. All members are invited to attend; register here or contact OMA's Rob Brundrett. *1/15/2014*

Severance Tax Proposal Gets Hearing

The House Ways and Means Committee held proponent testimony this week on House Bill 375, a House GOP backed bill that makes changes to Ohio's severance tax.

The Legislative Service Commission (LSC), a nonpartisan research organization, produced this fiscal analysis of the bill, which "...creates a distinction between horizontal wells and nonhorizontal wells for severance tax purposes. It reduces taxes on nonhorizontal wells and imposes a different tax on horizontal wells. A portion of revenues will be used to partially offset revenue losses to two DNR funds, with remaining revenue to be used to fund a personal income tax cut. A personal income tax credit and an exclusion from the CAT for horizontal well receipts will reduce GRF revenues."

The LSC analysis did not predict how much revenue the new tax structure might generate for personal income tax cuts.

House members heard testimony from the Ohio Oil and Gas Association, among others. *1/9/2014*

Important Tax Figures for 2014

Per OMA Connections Partner, GBQ Partners, every year, the dollar amounts allowed for various federal tax benefits are subject to change based on inflation adjustments and legislation.

Here are some important tax figures for 2014, compared with 2013, including the estate tax exemption, Social Security wage base, qualified retirement plan and IRA contribution limits, driving deductions, allowable business write-off amounts and more. *1/7/2014*

House Holds First Hearing on New Severance Tax Proposal

This week the House Ways and Means Committee heard sponsor testimony from Rep. Matt Huffman (R-Lima) on House Bill 375, which would decrease severance taxes paid by small traditional drillers and increase severance taxes on horizontal drillers. The bill would also exclude from the commercial activity tax the gross receipts from the sale of oil or natural gas severed through a horizontal well. See bill summary. *12/12/2013*

House Hears Alternative Fuel Motor Vehicle Bill

The House Finance Committee heard sponsor testimony last week on House Bill 336, a bill that is intended to encourage the acquisition and use of motor vehicles propelled by alternative forms of motor fuel.

House Bill 336 provides for the treatment of compressed natural gas used to propel motor vehicles on the public highways as motor fuel for purposes of the motor fuel tax, the motor fuel gross receipts tax, and the commercial activity tax. It also creates a number of credits and exclusions related to the purchase of, or conversion of existing vehicles to, alternative fuel vehicles, including the income tax, the commercial activity tax, and the sales tax. It also provides for a grant program to encourage public and nonprofit organizations to encourage the use of such vehicles.

The bill is sponsored by Representatives Sean O'Brien (D-Hubbard) and David Hall (R-Millersburg).

OMA tax counsel, Mark Engel, Partner, Bricker and Eckler, provided this analysis of the bill. *12/5/2013*

House Introduces New Severance Tax Plan

The Ohio House this week introduced a new severance tax plan, House Bill 375, that is sponsored by Speaker Pro Tem Matt Huffman (R-Lima) and cosponsored by Speaker Batchelder (R-Medina).

According to OMA tax counsel, Mark Engel, the bill would: "... reduce the severance tax rate on persons extracting oil and natural gas by means other than horizontal wells; impose a tax on the net proceeds of oil and natural gas produced through horizontal wells; provide a credit against the state income tax equal to the amount of tax paid by taxpayers using horizontal wells; and provide an exclusion from the commercial activity tax for proceeds of the sale of oil and gas by persons paying the severance tax applicable to the use of horizontal wells."

You can read a full analysis of the bill that Mark Engel prepared. *12/5/2013*

OMA Asks House Committee to Oppose CAT Credit

This week the OMA submitted a letter to the House Ways and Means Chairman, Rep. Peter Beck (R-Mason), outlining concerns with House Bill 219. The bill creates a nonrefundable commercial activity tax (CAT) credit for certain economic development contributions.

In his letter OMA Director, Public Policy Services, Rob Brundrett, said, "Some of the most important aspects of the CAT are its broad base, its low rate, and its broad application to business entities. Those attributes can only be maintained when the state stands firm against individual carve-outs and exemptions."

The OMA previously issued a similar letter of concern to senators regarding companion legislation, Senate Bill 149. *12/5/2013*

House Bill 5, Municipal Tax Uniformity Bill, Advances to Senate

Almost a year after it was introduced, House Bill 5, the municipal income tax uniformity bill, was voted out of the House of Representatives yesterday by a vote of 56-39. The bill includes numerous changes to local income taxes that should reduce administrative time and cost to manufacturers.

The bill continues to receive fierce opposition from city leaders. The most controversial aspect of the bill is a provision that would require city tax systems to allow businesses to carry forward net operating losses for five years. While some cities already allow some type of carry forward, the law would require all cities to fully implement this practice by 2017.

Due to the importance of this legislation to manufacturing competitiveness, the OMA marked it a "key vote" bill. Key vote bills are tracked by the OMA and used in candidate endorsement processes.

House Bill 5 now moves to the Senate. Contact your state senator to urge passage of House Bill 5. *11/14/2013*

OMA Warns Against CAT Credit

This week the OMA submitted a letter to Senate Ways and Means Committee Chairman Tim Schaffer (R-Lancaster) asking the Senate to resist bills that create commercial activity tax (CAT) credits. The committee had a hearing on Senate Bill 149, sponsored by Bill Beagle (R-Tipp City), which creates a credit against the CAT for businesses that contribute to economic development projects.

The OMA wrote, “Manufacturers are concerned that any new carve-outs, exemptions, or credits could provide strain on the CAT forcing an increase in its rate.” Ohio manufacturers pay the largest proportionate share of CAT. The renewed push for more credits coming from the General Assembly continues to be a concern among manufacturers. 11/14/2013

HB5 **MUNICIPAL CORPORATIONS INCOME TAXES** (GROSSMAN C, HENNE M) To revise the laws governing income taxes imposed by municipal corporations.

Current Status: 11/19/2013 - Referred to Committee Senate Finance

State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_5

HB24 **TAX EXPENDITURE REVIEW COMMITTEE** (BOOSE T) To create a Tax Expenditure Review Committee for the purpose of periodically reviewing existing and proposed tax expenditures.

Current Status: 12/4/2013 - House Ways and Means, (Third Hearing)

State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_24

HB26 **SALES-USE TAX EXEMPTION** (MAAG R) To exempt from sales and use taxes the sale or use of investment metal bullion and coins.

Current Status: 6/5/2013 - House Ways and Means, (Second Hearing)

State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_26

HB40 **INVESTIGATION OF LOST FUNDS-LIBOR** (FOLEY M) To require the Treasurer of State to investigate whether state treasury funds, custodial funds, or funds of state institutions of higher education were lost as a result of fraudulent manipulations to the LIBOR and to declare an emergency.

Current Status: 2/13/2013 - Referred to Committee House Policy and Legislative Oversight

State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_40

HB46 **SMALL CLAIMS DIVISION-TAX APPEALS BOARD** (AMSTUTZ R) To create a small claims division of the Ohio Board of Tax Appeals, to allow for parties to file a notice of appeal to the Board by facsimile or electronic transmission using electronic mail, to require the Board to establish a case management schedule for appeals, and to authorize the Tax Commissioner to expedite and issue a final determination for residential property value appeals with written consent of the parties.

Current Status: 2/13/2013 - Referred to Committee House Ways and Means

State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_46

HB54 **INTERNAL REVENUE CODE** (BECK P) To expressly incorporate changes in the Internal Revenue Code since December 20, 2012, into Ohio law, and to declare an emergency.

Current Status: 3/12/2013 - Referred to Committee Senate Ways and Means

State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_54

HB56 **BUSINESS PROPERTY TAX EXEMPTION** (GERBERRY R) To allow a board of township trustees to reduce the percentage or term of a property tax exemption granted to a business under a tax increment financing agreement if the business fails to create the number of new jobs the business agreed to create in the agreement.

Current Status: 3/12/2013 - House State and Local Government, (First Hearing)

State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_56

HB59 **BIENNIAL BUDGET** (AMSTUTZ R) To make operating appropriations for the biennium beginning July 1, 2013, and ending June 30, 2015; to provide authorization and conditions for the operation of state programs.

Current Status: 6/30/2013 - **SIGNED BY GOVERNOR**; Eff. 6/30/2013; Some Eff. 9/29/2013; Others Various Dates
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_59

HB63 **TAX CREDIT- OIL AND GAS PRODUCTION** (CERA J, O'BRIEN S) To establish a nonrefundable commercial activity tax credit for companies involved in horizontal well drilling or related oil and gas production services that hire Ohio residents or dislocated workers who have enrolled in or completed a federally registered apprenticeship program.
Current Status: 2/20/2013 - Referred to Committee House Ways and Means
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_63

HB81 **TAX EXPENDITURES EFFECTIVENESS** (DRIEHAUS D, FOLEY M) To provide for the periodic appraisal of the effectiveness of tax expenditures.
Current Status: 2/27/2013 - Referred to Committee House Policy and Legislative Oversight
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_81

HB107 **CAREER EXPLORATION INTERNSHIPS-TAX CREDIT** (BAKER N) To authorize a tax credit for businesses that employ high school students in career exploration internships.
Current Status: 2/18/2014 - Senate Finance, (Fourth Hearing)
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_107

HB118 **BOND ISSUES BALLOT LANGUAGE** (ROEGNER K) To revise the ballot language requirements for bond issues.
Current Status: 6/11/2013 - House State and Local Government, (Second Hearing)
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_118

HB135 **INCOME TAX CREDIT-VACANT INDUSTRIAL SITE** (PELANDA D, CERA J) To authorize a nonrefundable credit against the income tax and certain business taxes for the rehabilitation of a vacant industrial site.
Current Status: 11/12/2013 - **SUBSTITUTE BILL ACCEPTED**, Senate Ways and Means, (Second Hearing)
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_135

HB138 **TAX APPEALS BOARD LAW CHANGES** (MCCLAIN J, LETSON T) To make changes to the law governing the Board of Tax Appeals, including authorizing a small claims division within the Board, requiring the Board to institute measures to manage certain appeals, requiring the Board to receive notices of appeal and statutory transcripts electronically, providing pleading standards for appeals to the Board, granting the Board authority to grant summary judgments and consider motions, vesting hearing examiners with the authority to determine credibility of witnesses and issue statements of fact and conclusions of law separately, and authorizing the Board to require parties to engage in mediation, and to authorize the Tax Commissioner to expedite and issue a final determination for residential property value appeals with written consent of the parties.
Current Status: 7/11/2013 - **SIGNED BY GOVERNOR**; Eff. 10/11/2013; Some Provisions Other Dates
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_138

HB189 **JOBSOHIO ACCOUNTABILITY ACT** (LUNDY M) To create the JobsOhio Accountability Act.
Current Status: 6/4/2013 - Referred to Committee House Policy and Legislative

Oversight
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_189

HB198 **TAX INCREMENT FINANCING** (BUTLER, JR. J, BURKLEY T) To establish a procedure by which political subdivisions proposing a tax increment financing (TIF) incentive district are required to provide notice to the record owner of each parcel within the proposed incentive district before adopting the TIF resolution, and to permit such owners to exclude their parcels from the incentive district by submitting a written response.
Current Status: 2/11/2014 - House State and Local Government, (Fourth Hearing)
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_198

HB212 **SEVERANCE TAX-HORIZONTAL WELLS** (HAGAN R) To levy a tax on the severance of oil, gas, condensate, and natural gas liquids from horizontal wells, to distribute revenue from the tax to environmental and oil and gas regulatory purposes, local governments impacted and not impacted by horizontal well development, and a permanent fund to promote economic development, and to provide for the administration, investment, and use of the permanent fund.
Current Status: 1/21/2014 - House Agriculture and Natural Resources, (First Hearing)
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_212

HB219 **CONTRIBUTIONS-ECONOMIC DEVELOPMENT PROJECTS** (BUTLER, JR. J) To authorize tax credits for contributions of money to economic and infrastructure development projects undertaken by local governments and nonprofit corporations.
Current Status: 12/4/2013 - House Ways and Means, (Third Hearing)
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_219

HB224 **TAX CREDITS** (GONZALES A, TERHAR L) To make various changes to the administration of the investment tax credit and the venture capital loan loss tax credit, including the increase of the maximum amount of the investment tax credit and the venture capital loan loss tax credit and the elimination of the Industrial Technology and Enterprise Advisory Councils.
Current Status: 6/26/2013 - Referred to Committee House Ways and Means
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_224

HB230 **TAX CREDIT-FOOD DONATIONS** (GROSSMAN C, ANIELSKI M) To authorize an income tax or commercial activity tax credit for businesses that donate food inventory to charitable organizations.
Current Status: 10/2/2013 - House Ways and Means, (First Hearing)
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_230

HB245 **PROPERTY TAX ROLLBACK** (BARBORAK N) To extend the 10% and 2.5% partial property tax "rollback" exemptions to new and replacement levies approved at the 2013 general election and to declare an emergency.
Current Status: 9/19/2013 - Referred to Committee House Finance and Appropriations
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_245

HB246 **TAX DEDUCTION-COLLEGE GRADUATES** (ROGERS J, BLAIR T) To allow recent college graduates to claim an income tax deduction for qualified higher education expenses and allow employers of recent college graduates to deduct the employer's costs of employing the graduate from the employer's gross receipts subject to the commercial activities tax.

Current Status: 10/2/2013 - House Ways and Means, (First Hearing)

State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_246

HB260 **ELECTRONICALLY FILED TAX RETURNS** (GONZALES A) To allow the Department of Taxation to provide taxpayers who file electronic returns the option of receiving their income tax refund in the form of a credit card, debit card, prepaid card, or other device used to electronically transfer funds.

Current Status: 12/4/2013 - House Ways and Means, (Second Hearing)

State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_260

HB282 **SALES-USE TAX LICENSE** (ROGERS J) To authorize vendors and others required to hold a sales or use tax license whose business and home address is the same to apply to the Tax Commissioner to keep such address confidential.

Current Status: 2/11/2014 - House Ways and Means, (First Hearing)

State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_282

HB284 **HISTORIC REHABILITATION TAX CREDIT INCREASE** (SCHURING K) To increase the maximum historic rehabilitation tax credit allowed to a taxpayer, from $5 million to $25 million, and to limit the amount of such credit that may be claimed in each year to $5 million.

Current Status: 10/10/2013 - Referred to Committee House Ways and Means

State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_284

HB289 **JOINT ECONOMIC DEVELOPMENT ZONE-DISTRICT** (SCHURING K) To require subdivisions to obtain written approval from owners and lessees of real property located within a proposed or existing joint economic development zone (JEDZ) or joint economic development district (JEDD) before approving, amending, or renewing the JEDZ or JEDD contract, to require that income tax revenue derived from a JEDZ or JEDD approved, amended, or renewed after the bill's effective date be used to carry out the JEDZ or JEDD economic development plan before being used for other purposes, and to institute contiguity requirements for which subdivisions may create a JEDZ or JEDD.

Current Status: 2/18/2014 - House State and Local Government, (Seventh Hearing)

State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_289

HB312 **ELECTRIC LIGHT COMPANY-JOB RETENTION PROGRAM COSTS** (JOHNSON T) To permit a public utility electric light company to recover costs of an economic and job retention program from all public utility electric light customers in Ohio.

Current Status: 1/22/2014 - House Public Utilities, (Second Hearing)

State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_312

HB319 **INFRASTRUCTURE DEVELOPMENT RIDER-GAS COMPANIES** (GROSSMAN C) To permit natural gas companies to apply for an infrastructure development rider to cover costs of certain economic development projects.

Current Status: 2/19/2014 - House Public Utilities, (Second Hearing)

State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_319

HB329 **FEDERAL FUNDS REPAYMENT-UNEMPLOYMENT BENEFITS** (HALL D) To require the Director of Budget and Management to make payments on the balance of amounts borrowed by the state from the federal government to issue unemployment benefits and to make an appropriation.

Current Status: 11/6/2013 - Referred to Committee House Finance and Appropriations
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_329

HB336 **GASEOUS FUEL VEHICLE CONVERSION PROGRAM** (O'BRIEN S, HALL D) To create the Gaseous Fuel Vehicle Conversion Program, to allow a credit against the income or commercial activity tax for the purchase or conversion of an alternative fuel vehicle, to reduce the amount of sales tax due on the purchase or lease of a qualifying electric vehicle by up to $500, to apply the motor fuel tax to the distribution or sale of compressed natural gas, to authorize a temporary, partial motor fuel tax exemption for sales of compressed natural gas used as motor fuel, and to make an appropriation.
Current Status: 2/18/2014 - House Finance and Appropriations, (Second Hearing)
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_336

HB345 **LOST REVENUE-TAX INCENTIVES** (BARBORAK N) To require the Director of Development Services to estimate the revenue that would be foregone by the state as a result of each tax incentive proposed to the Tax Credit Authority and publish that estimate on the web site of the Development Services Agency.
Current Status: 11/19/2013 - Referred to Committee House Ways and Means
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_345

HB357 **SALES-USE TAX CREDITS-RECYCLED ITEMS** (BECKER J) To exclude credits afforded by vendors to consumers for conveying items of tangible personal property to the vendor for recycling or remanufacturing from the price of a sale for sales and use tax purposes.
Current Status: 12/3/2013 - Referred to Committee House Ways and Means
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_357

HB365 **BUSINESS TAX OVERPAYMENT** (STINZIANO M, DUFFEY M) To require the Tax Commissioner to notify a taxpayer that the taxpayer has overpaid certain business taxes.
Current Status: 12/4/2013 - Referred to Committee House Ways and Means
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_365

HB375 **SEVERANCE TAX-HORIZONTAL OIL AND GAS WELLS** (HUFFMAN M) To levy a severance tax on well owners of oil and gas severed from horizontal wells, to create a nonrefundable income tax credit for the amount of horizontal well severance tax paid, to repeal a cost recovery assessment imposed on oil and gas well owners, to reduce the severance tax rate on natural gas extracted from nonhorizontal wells, to exclude from the tax base of the commercial activity tax gross receipts from the sale of oil or natural gas severed through use of a horizontal well, and to make an appropriation.
Current Status: 2/12/2014 - **SUBSTITUTE BILL ACCEPTED**, House Ways and Means, (Seventh Hearing)
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_375

HB405 **INCOME TAX CREDIT-CERTAIN DEGREES** (BUDISH A, HOTTINGER J) To grant an income tax credit to individuals who earn degrees in science, technology, engineering, or math-based fields of study.
Current Status: 1/28/2014 - Referred to Committee House Ways and Means
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_405

HCR6 **FEDERAL EXCISE TAX-MEDICAL DEVICES** (BRENNER A, HUFFMAN M) To urge the Congress of the United States and the President of the United States to repeal the new federal excise tax on medical devices.

Current Status: 4/30/2013 - Referred to Committee Senate Medicaid, Health and Human Services

State Bill Page: http://www.legislature.state.oh.us/res.cfm?ID=130_HCR_6

SB27 **PROPERTY TAX EXEMPTION-MILITARY VETERANS** (SCHAFFER T) To exempt from property taxation the primary residences of military veterans who are 100% disabled from a service-connected disability.

Current Status: 2/27/2013 - Senate Ways and Means, (First Hearing)

State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_SB_27

SB28 **INTERNAL REVENUE CODE** (OBHOF L) To expressly incorporate changes in the Internal Revenue Code since December 20, 2012, into Ohio law, and to declare an emergency.

Current Status: 3/22/2013 - **SIGNED BY GOVERNOR**; Eff. 3/22/2013

State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_SB_28

SB29 **INCOME TAX REFUND-JUDGMENT DEBTOR TENANT** (SCHAFFER T) To enable a judgment creditor landlord to obtain a court order directing the Tax Commissioner to pay the judgment debtor tenant's income tax refund to the landlord.

Current Status: 2/27/2013 - Senate Ways and Means, (First Hearing)

State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_SB_29

SB30 **AMERICAN RED CROSS CONTRIBUTIONS** (SCHAFFER T) To allow taxpayers to make contributions to the American Red Cross Ohio Disaster Response Readiness and preparedness Fund through their income tax returns.

Current Status: 2/27/2013 - Senate Ways and Means, (First Hearing)

State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_SB_30

SB31 **INCOME TAX CREDIT-TEACHERS** (SCHAFFER T) To allow a credit against the personal income tax for amounts spent by teachers for instructional materials.

Current Status: 2/27/2013 - Senate Ways and Means, (First Hearing)

State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_SB_31

SB42 **PROPERTY TAXES-SCHOOL SECURITY** (MANNING G, GARDNER R) To authorize school districts to levy a property tax exclusively for school safety and security purposes.

Current Status: 6/19/2013 - House Ways and Means, (Third Hearing)

State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_SB_42

SB52 **PROPERTY TAX COMPLAINTS** (COLEY W) To permit property tax complaints to be initiated only by the property owner.

Current Status: 6/18/2013 - Senate Ways and Means, (Fourth Hearing)

State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_SB_52

SB56 **INCOME TAX REFUNDS** (KEARNEY E) To require the Department of Taxation to provide taxpayers the option of receiving their income tax refund in the form of a prepaid debit card.

Current Status: 3/5/2013 - Senate Ways and Means, (First Hearing)

State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_SB_56

SB76 **NONPROFIT CORPORATION CORRECTIONAL FACILITY TAX EXEMPTION** (SCHIAVONI J) To specify that a nonprofit corporation, the principal purpose of which is operating a halfway house, community-based correctional facility, or other venue offering rehabilitative residential programming to criminal offenders is presumed to be a charitable institution exempt from property taxation.

Current Status: 6/18/2013 - Senate Ways and Means, (Second Hearing)
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_SB_76

SB85 **TAX EXEMPTION-INVESTMENT METAL BOUILLON-COINS** (JORDAN K, BEAGLE B) To exempt from sales and use taxes the sale or use of investment metal bullion and coins.

Current Status: 4/16/2013 - Senate Ways and Means, (First Hearing)
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_SB_85

SB89 **EARNED INCOME TAX CREDIT** (SKINDELL M) To grant a state earned income tax credit equal to a percentage of the federal earned income tax credit.

Current Status: 6/11/2013 - Senate Ways and Means, (First Hearing)
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_SB_89

SB108 **INCOME TAX** (JONES S) To repeal the income tax deduction for wagering losses, to increase the income tax credit for the legal adoption of a child to $10,000 for each child, and to increase the maximum income tax deduction for college savings contributions to $10,000 annually for each beneficiary.

Current Status: 4/30/2013 - Senate Ways and Means, (Second Hearing)
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_SB_108

SB120 **TECHNOLOGY INVESTMENT TAX CREDIT PROGRAM** (KEARNEY E) To increase the total amount of credits that may be awarded under the Technology Investment Tax Credit Program from $45 to $145 million.

Current Status: 5/8/2013 - Referred to Committee Senate Finance
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_SB_120

SB149 **CONTRIBUTIONS-ECONOMIC DEVELOPMENT PROJECTS** (BEAGLE B) To authorize tax credits for contributions of money to economic and infrastructure development projects undertaken by local governments and nonprofit corporations.

Current Status: 11/19/2013 - Senate Ways and Means, (Third Hearing)
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_SB_149

SB159 **PROPERTY TAX ROLLBACK EXEMPTIONS** (SCHIAVONI J) To extend the 10% and 2.5% partial property tax "rollback" exemptions to new and replacement levies approved at the 2013 general election and to declare an emergency.

Current Status: 9/26/2013 - Referred to Committee Senate Ways and Means
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_SB_159

SB203 **INCOME TAX CREDIT-NONPROFITS** (SCHAFFER T, TAVARES C) To authorize an income tax credit for individuals that earn a nonprofit management degree or certain professional designations and to allow a sales tax exemption for out-of-state nonprofit corporations that relocate jobs to Ohio.

Current Status: 11/19/2013 - Senate Ways and Means, (First Hearing)
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_SB_203

SB210 **INCOME TAX RATE REDUCTION** (WIDENER C) To provide for a permanent income tax rate reduction of 4% for all tax brackets beginning in 2014.

Current Status: 2/18/2014 - Senate Finance, (Second Hearing)

State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_SB_210

SB211 **INCOME TAX CREDIT** (SCHAFFER T, PETERSON B) To authorize an income tax credit for donations to the permanent endowment fund of an eligible community foundation.

Current Status: 11/19/2013 - Senate Ways and Means, (Third Hearing)

State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_SB_211

SB243 **SALES TAX HOLIDAY** (BACON K) To provide a three-day sales tax "holiday" each August during which sales of back-to-school clothing, school supplies, personal computers, and personal computer accessories are exempt from sales and use taxes.

Current Status: 2/11/2014 - Senate Ways and Means, (Third Hearing)

State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_SB_243

SCR1 **FEDERAL EXCISE TAX-MEDICAL DEVICES** (JORDAN K) To urge the Congress of the United States and the President of the United States to repeal the new federal excise tax on medical devices.

Current Status: 2/13/2013 - Referred to Committee Senate Medicaid, Health and Human Services

State Bill Page: http://www.legislature.state.oh.us/res.cfm?ID=130_SCR_1

The Ohio Manufacturers' Association

Public Policy Priorities

2012-2013

Manufacturing is the engine that drives Ohio's economy, and the mission of the Ohio Manufacturers' Association is to protect and grow Ohio manufacturing. In a fiercely competitive global economy—where the need for continuous quality improvement, enhanced efficiency and productivity, and constant innovation is relentless—every public policy decision that affects Ohio's business climate affects Ohio's manufacturing competitiveness.

Ohio manufacturers need public policies that help create global competitive advantage, attract investment and promote growth. These policies span a broad spectrum of conditions that shape the business environment within which manufacturers operate. Major policy goals include the following:

- An Effective, Competitive Ohio Tax System
- An Efficient, Effective Workers' Compensation System
- Access to Reliable, Economical Energy
- A Fair, Stable, Predictable Civil Justice System
- Clear, Consistent, Predictable Environmental Regulations
- A Modernized Transportation Infrastructure
- An Educated, Highly Skilled Workforce

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The Ohio Manufacturers' Association

POLICY GOAL:

An Effective, Competitive Ohio Tax System

For Ohio to be successful in a global economy, the state's tax structure must encourage investment and growth and be competitive nationally and internationally. A globally competitive tax system is characterized by (a) certainty, (b) equity, (c) simplicity and (d) transparency. Economy of collections and convenience of payment also are important considerations.

Generally, manufacturers support efforts to broaden the tax base, which enables lower rates. To preserve the integrity of the broad tax base and ensure fairness, credits and exemptions should be reduced and discouraged. Where needed, government incentives are best structured as grants rather than as tax credits. And, in general, earmarking and dedicating tax revenues should be discouraged.

Good tax policy also generates necessary revenues to support the essential functions of government. To ensure transparency regarding the true cost of government and the rate of its growth, however, funding government programs with fee revenue instead of general fund revenue should be discouraged. Good budgeting and spending restraint at all levels of government are vital to ensure a competitive tax environment.

Major tax reforms approved by the Ohio General Assembly in 2005 have led to significant improvements to a tax system that was for many years widely regarded as outdated. Reforms included reducing overall tax rates, eliminating tax on investment, broadening the tax base, providing more stable and predictable revenues, and simplifying compliance. While progress has been made, additional policy reforms are needed to support manufacturing competiveness, economic growth and prosperity in Ohio.

Tax policy priorities include the following:

- **Preserve the integrity of Ohio's 2005 tax reforms,** including a zero-tolerance response to any efforts via legislation or the court system to carve out exemptions or credits to (a) avoid paying the Commercial Activities Tax (CAT) or (b) earmark any portion of CAT revenues for specific government services.

- **Improve Ohio's tax appeals process,** which due to bad economic conditions and subsequent state budget cuts, staffing cutbacks and increased caseloads, has contributed to such a backlog of cases at the Ohio Board of Tax Appeals that it routinely takes two years to advance from the date of filing an appeal to the date of the first hearing.

- **Preserve the repeal of Ohio's estate tax,** which for so long served as a disincentive for business owners to invest in existing businesses and as an impediment to the capital formation that is so vital to Ohio's economy.

- **Streamline and simplify the sales tax,** which over time has become riddled with exemptions, carve-outs and credits that result in some taxpayers subsidizing exempted taxpayers. Exemptions, carve-outs and credits should be reviewed periodically for economic justification.

- **Promote taxpayer uniformity.** Consolidate and streamline the collection of municipal income tax by creating a uniform statewide municipal tax code, with uniform definitions of taxable income, consistent rules and regulations and a generic municipal income tax form.

- **Lower the effective tax rate in Ohio by reducing the number of government entities that are taxing jurisdictions.** This will help address the problem of pancaking state and local state taxes, which puts Ohio at a competitive disadvantage with many other states.

POLICY GOAL:

An Efficient, Effective Workers' Compensation System

The Ohio Manufacturers' Association works with its member companies, the Ohio Bureau of Workers' Compensation (BWC or Bureau), and the Ohio General Assembly to continually improve processes for injured workers and employers and to drive system costs down. An efficient and effective workers' compensation system is built on the following principles:

- Injured workers will receive fair and timely benefits they need for getting back to work quickly and safely.
- All businesses will pay fair workers' compensation rates commensurate with the risk they bring to the system.
- Workers' compensation rates will be driven by actuarial data, and the state's workers' compensation insurance system will remain stable, solvent and actuarially sound.
- Workers' compensation rates will not be structured in a way that punishes one class of employers to benefit another (such as the historical subsidization of group-rated employers by non-group-rated employers).
- The Ohio Bureau of Workers' Compensation will deploy best-in-class disability management practices to drive down costs for employers and improve service for injured parties.

These outcomes would be good for manufacturers and good for Ohio's overall economy.

Workers' compensation policy priorities include the following:

- **Design and deploy a competitive process that requires Managed Care Organizations (MCOs) to (a) meet rigorous performance standards established by the BWC and (b) compete on price for contracts with the BWC.**
- **Eliminate the "reasonable suspicion" standard from Ohio's rebuttable presumption drug statute.**
- **Incorporate the Louisiana Pacific standards of "voluntary abandonment" for benefits.**
- **Improve claims management processes, transparency and accountability associated with Ohio's Self-Insured Employers' Guaranty Fund.**
- **Require credentialing/certification of all claims management personnel based on accepted private insurance industry standards.**
- **Establish retirement benefit offsets and/or age or number-of-weeks caps** for permanent total disability (PTD) awards.

- **Require claimants to show new and/or changed circumstances when filing for permanent total disability (PTD) or permanent partial disability (PPD) benefits more than once.**

- **Require Industrial Commission hearings to be recorded** to improve consistency in outcomes.

- **Allow telephonic hearings for permanent partial disability (PPD) claims to lower transaction costs.**

- **Establish an impairment standard (no consideration of non-medical factors) for permanent partial disability (PPD) cases.**

- **Terminate the compensation paid for temporary total disability (TTD) effective the date determined by the medical evidence establishing maximum medical improvement.**

- **Specify that if a temporary total disability (TTD) claim is suspended due to a claimant's refusal to provide a signed medical release or attend the employer's medical examination, the claimant forfeits his or her right to benefits during the period of the suspension.**

- **Allow employers to pay compensation and medical bills without losing the right to contest a claim (payment without prejudice).**

- **Require permanent partial disability (PPD) claims to be resolved by choosing either the claimant's medical exam determination or the defendant's medical exam determination—explicitly prohibiting an averaging of, or compromise between, the two.**

- **Require MCOs to demonstrate their medical arrangements and agreements with a substantial number of medical, professional and pharmacy providers participating in the BWC's Health Partnership Program.** These providers should be selected on the basis of access, quality of care and cost, rather than solely claimant preference. The focus should be on getting injured workers back to work quickly and safely, benefitting both the employee and the employer.

- **Allow the BWC to require claimants to pay out-of-plan co-payments for selecting medical providers outside the approved MCO panel of providers,** beginning the 46th day after the date of injury or the 46th day after starting treatment. However, employees should be allowed to use a provider outside the approved panel if they are located in certain parts of the state or outside the state where approved MCO providers cannot reasonably be accessed.

- **Allow the BWC to modify existing rules for the Bureau's Health Partnership Program to include administrative and financial incentives that reward high-performing MCOs and other providers.** Possible incentives include bonus payments to providers who greatly exceed quality benchmarks established by the BWC to help reduce costs without sacrificing quality of services or outcomes.

- **Collect and include in the BWC's healthcare data program annual data measuring the outcomes and savings of MCOs and other providers participating in the Health Partnership Program.** This data should be made available to employers and the public. The more performance data that are collected, the more efficient and effective the system will become.

- **Allow the BWC to recoup treatment costs from claims that ultimately are denied under BWC law.** The Bureau should be able to request that an employee's personal insurance or third-party payer reimburse the BWC for treatment amounts the Bureau paid on behalf of the employee. These payments should be deposited in the Surplus Fund Account. This will ensure injured workers will receive the treatments they need in a timely manner, while providing the Bureau a path to recoup payments that ultimately should not have been paid out by the system.

- **Allow the BWC to develop new rules permitting the BWC to pay for certain medical services within the first 45 days of an injury.** This would ensure that injured employees receive treatment regardless of whether their claims are eventually denied in the process. Also allow the Bureau to create rules allowing for immediate payment of prescriptions in certain circumstances. If a claim is ultimately disallowed, the services paid must be charged to the Surplus Fund Account as long as the employer pays its assessments into the Surplus Fund Account in the State Insurance Fund.

- **Require injured workers to participate in the treatment process in a timely manner.** Employees who refuse or unreasonably delay required treatment such as rehabilitation services, counseling, medical exams or vocational evaluations without a valid reason should forfeit their right to have the claim considered or to receive any compensation or benefits during the period of non-cooperation.

POLICY GOAL:

Access to Reliable, Economical Energy

Energy policy can enhance—or hinder—Ohio's ability to attract business investment, stimulate economic growth and spur job creation, especially in manufacturing. State and federal energy policies must strike an effective balance between (a) ensuring access to reliable, economical sources of energy and (b) conserving energy to protect and preserve our natural resources.

The Ohio Manufacturers' Association's energy policy advocacy efforts are guided by these principles:

- Predictable, stable energy pricing achieved though effective energy rate design attracts job-creating capital investments.
- A modernized energy infrastructure will help maximize energy supplies and stabilize energy pricing and reliability.
- Strategic and operational collaboration among utilities, government and manufacturers and their supply chains produces better economic outcomes than do confrontational and adversarial regulatory proceedings.
- Ohio's traditional industrial capabilities enable global leadership in energy technology innovation and manufacturing.
- Sustainability requirements can create profitable new market opportunities but must be economically feasible.
- Effective government regulation recognizes technical and economic realities.

Shaping energy policy in Ohio that aligns with these principles will support manufacturing competitiveness, stimulate economic expansion and job creation, and foster environmental stewardship.

Energy policy priorities include the following:

- **Design an economic development discount rate for energy-intensive manufacturers that makes Ohio competitive with other states.** This refers to a discount off an electric utility's tariff rate to incentivize capital investment and job creation.
- **Revise PUCO rules to remove barriers to the use of self-help strategies and to enhance reliability.**
- **Revise PUCO rules governing energy efficiency – including cogeneration and demand-side management – to achieve least-cost implementation and to incentivize interested parties to undertake innovative and least-cost efficiency projects.**
- **Ensure that electric distribution utilities comply with Ohio's three percent cost cap for renewable energy in a least-cost manner** so customers are not forced to pay above-market prices for renewable energy.

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- **Ensure rigorous PUCO monitoring and regulation of dealings between electric distribution utilities and their affiliates.**

- **Remove/mitigate barriers electric distribution utilities have created to inhibit/prevent shopping and ensure consumers have the information and tools they need to understand and take full advantage of market opportunities.** For example, utilities should (a) be required to explain how customers' peak load contribution, which is used by suppliers to price competitive generation contracts, is calculated; (b) provide the calculated peak load contribution not just to suppliers but also to customers; and (c) be held accountable for errors that affect the value to customers of competitive supply contracts. The PUCO also should require utilities to develop interactive tools that help demonstrate the "price to compare" and make apples-to-apples comparisons between competitive supply offers.

- **Ensure close coordination among the PUCO, PJM Interconnection, Ohio EPA, the Ohio Power Siting Board and Ohio manufacturers to ensure least-cost and most efficient use of generation and transmission resources.**

- **Adopt a state-level consumer advocacy role with PJM Interconnection regarding critical transmission issues and needs.**

POLICY GOAL:

A Fair, Stable, Predictable Civil Justice System

A state's legal climate can be a major inducement or a major deterrent to business investment, growth and job creation. For manufacturers to invest and grow in Ohio, and to compete globally, Ohio's civil justice system must be rational, fair and predictable. Manufacturers must be free to innovate and pursue market opportunities without fear of unreasonable exposure to costly lawsuits, while injured parties must have full recourse to appropriate measures of justice.

The OMA supports policy reforms that strike a reasonable balance between protecting consumers without overly burdening businesses that provide needed jobs, while also positioning Ohio advantageously relative to other states. We encourage policymakers to evaluate all proposed civil justice reforms by considering these questions:

- Will the policy fairly and appropriately protect and compensate injured parties without creating a "lottery mentality"?
- Will the policy increase—or decrease—litigation burdens and costs?
- Will the policy promote—or reduce—innovation?
- Will the policy attract—or discourage—investment?
- Will the policy stimulate—or stifle—growth and job creation?

Most importantly, we encourage our public-sector partners to ask themselves: "Will my position on critical tort reform issues enhance—or undermine—Ohio's competitiveness in the global economy?"

Civil justice reform policy priorities include the following:

- **Preserve Ohio's tort reform gains of the last decade,** in areas such as punitive damages, successor liability, collateral sources and statute of repose, which have helped strike a reasonable balance between protecting consumers without unduly burdening businesses that provide needed jobs, while positioning Ohio as an attractive state for business investment.
- **Require asbestos claimants to make certain disclosures pertaining to claims that have been submitted to asbestos bankruptcy trusts** to prevent "double dipping" without limiting or delaying the ability of asbestos claimants to seek recovery for their injuries.
- **Enact TIPAC legislation (Transparency in Private Attorney Contracting) that requires public disclosure of most large contingency-fee contracts between government and personal injury attorneys** to address concerns about the propriety of contingency-fee arrangements for the prosecution of public claims.
- **Require consistent language when statutes intend to explicitly create a private right of action** (i.e., a right to file suit) to curtail court rulings that result in unexpected liability for companies.

- **Amend Rule 68 of the Ohio Rules of Civil Procedure to mirror Rule 68 of the Federal Rules of Civil Procedure,** which makes a plaintiff who rejects a defendant's settlement offer liable for the defendant's post-offer costs if the plaintiff does not improve on the offer at trial.

- **Reject any efforts to codify in Ohio statute the *cy pres* doctrine**—an existing tool that permits, but does not require, a judge and the parties to a class action lawsuit to donate all undistributed class action proceeds to a charity or other non-profit organization.

- **Reject legislation to enact a state false claims act.** A bill was introduced in the 129th Ohio General Assembly (SB 143) that would allow individuals with knowledge of possible fraudulent activity to (a) file suit in state courts against companies doing business with public entities and (b) recover a portion of the money recovered by the State. Under this bill, false claims suits could be filed against any business selling services or goods to state government. While fraud against the government is not to be condoned, there are preferable alternatives to creating a whole new category of state-level lawsuit.

POLICY GOAL:

Clear, Consistent, Predictable Environmental Regulations

Where environmental standards and regulations are concerned, manufacturers have a critical need for the following:

- Clarity, predictability and consistency
- Policies that reflect scientific consensus
- Commonsense enforcement
- Careful cost-benefit analysis as part of the policymaking process

Manufacturers also urge policymakers to exercise restraint in establishing state environmental standards and regulations that exceed federal standards and regulations, and to avoid doing so altogether without clear and convincing evidence that more stringent standards or regulations are necessary. At the same time, manufacturers understand that fair and reasonable regulations must be balanced with responsible stewardship of our natural resources.

Industry leads the way in solid waste reduction and recycling. Reduction and recycling include source reduction activities, reuse, recycling, composting and incineration. Industry is an enormous consumer of recycled materials, such as metals, glass, paper and plastics; manufacturers thus are strong advocates for improving recycling systems in Ohio and the nation.

Environmental policy priorities include the following:

- **Expand the focus of Ohio's state implementation plan for attaining National Ambient Air Quality Standards (NAAQS) and for reducing releases of substances regulated by EPA to the environment (air, water and land) beyond industrial sources to also include controls for non-industrial and mobile sources of releases.**
- **Revise existing statute to allow companies to appeal Ohio EPA Notices of Violation (NOVs) to Ohio's Environmental Review and Appeal Commission.**
- **Require Ohio EPA to evaluate and use best practices for implementation of federal environmental regulations** to avoid putting Ohio manufacturers at a competitive disadvantage because they face greater regulatory burdens than competitors from other states do based on Ohio EPA's stricter interpretation of federal regulations.
- **Give companies whose environmental permits are appealed by third parties the option, for a fee, of a "fast track" process and expedited resolution of the appeal,** which otherwise can discourage investors because Ohio's appeals process can go on for years.

- **Expand opportunities for industry to reuse non-harmful waste streams.** Beneficial reuse policies can result in less waste and more recycling of industrial byproducts.

- **Review Ohio's solid waste regulations, including procedures for disposing universal waste streams, to ensure safe and uniform disposal practices that are consistent with best practices used in other states.**

- **Reject state-level efforts to implement product composition mandates.** Such standards and requirements are best addressed at the federal level rather than through a patchwork of differing state-level requirements.

- **Reject extended producer responsibility policies that would shift responsibility for recycling certain consumer products from consumers to manufacturers.**

POLICY GOAL:

A Modernized Transportation Infrastructure

To remain competitive and maximize the economic benefits of Ohio's manufacturing strength, the State must continue to invest in updating and expanding Ohio's multi-modal transportation infrastructure, including roads, bridges, rails and ports. Continued investment in these resources will be critical to providing Ohio businesses with flexible, efficient, cost-effective shipping options.

Transportation infrastructure policy priorities include the following:

- **Modify Ohio's rules and regulations** to allow greater flexibility and efficiency in the truck permitting process and to ensure Ohio's truck permitting standards and processes are competitive with other states with regard to requirements, fees and responsiveness.

- **Enhance shipping flexibility by supporting the federal Safe and Efficient Transportation Act.** This bill would allow states to tailor regulations to meet state-level transportation needs linked to a state's particular economic assets and strengths.

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POLICY GOAL:
An Educated, Highly Skilled Workforce

A robust economy requires an adequate, reliable supply of skilled workers who have the technical knowledge and skills required to meet global standards for quality and productivity, and who are able to think critically, work collaboratively and drive innovation. Sustained growth in manufacturing productivity will require not only a new generation of globally competent workers interested in the variety of roles within manufacturing careers but also incumbent workers willing to embrace lifelong learning so they can continuously upgrade their competencies to keep pace with technological advancements and global competition.

Workforce development policy priorities include the following:

- **Expand the use of the National Association of Manufacturers' "Manufacturing Skills Certification System."** This system of nationally portable, industry recognized, "stackable" credentials is applicable to all sectors in the manufacturing industry. The credentials validate foundational skills and competencies needed to be productive and successful in entry-level positions in any manufacturing environment. Credentials can be earned from both secondary and postsecondary educational programs.

- **Expand the use of cooperative education, internships and apprenticeships.** These experiential learning programs enhance talent recruitment and retention because participating students are exposed to company-specific, real-world job expectations and experiences. Students develop strong leadership and management skills by working closely with company staff who serve as their mentors/supervisors, and participating companies benefit from reduced recruitment and training costs.