Tax Committee
May 20, 2014

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

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

OMA Tax Committee Meeting Sponsor:

McGladrey

OMA Tax Policy Committee

May 20, 2014

AGENDA

Welcome & Self-Introductions:	Allan Thompson, Chairman A K Steel Corporation
Guest Speaker	State Representative Jeff McClain Chairman House Ways and Means Committee
OMA Counsel's Report	Mark Engel Bricker & Eckler
Ohio Unemployment Tax Presentation	Dan Hilson Roetzel & Andress
OMA Public Policy Report	Rob Brundrett OMA Staff
Discussion Items	Severance tax Mid-biennium review OMA tax policy priorities

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:

Representative Jeff McClain

87th House District

State Representative Jeff McClain is serving his third term in the Ohio House of Representatives for all the citizens of Wyandot, Crawford and Morrow counties and parts of Marion and Seneca counties.

Prior to his time in the House, Jeff was the Wyandot County Auditor for more than 26 years. He has served on many professional, community and faith-based boards over the years.

Jeff has a Bachelor of Business Administration in higher accounting from Tiffin University. While in school, he was a scholarship athlete competing in baseball and basketball for the Dragons.

In his tenure as a representative, McClain has been named a "Friend of Agriculture" by the Ohio Farm Bureau, awarded the "Watchdog of the Treasury" award in 2010 and 2012 by the United Conservatives of Ohio, and was named the "Elected Official of the Year" by the Ohio District 5 Area Agency on Aging, as well as the Ohio Association of Area Agencies on Aging.

The McClain family that Jeff and Barb are blessed with are Riordan and Sarah McClain, Chad and Mallory Guined, and Mackenzie McClain. There are also three lovely little granddaughters named Norah, Makaria, and Fiona.

The Ohio Statehouse Columbus, Ohio 43215 (614) 644-6265 rep87@ohiohouse.gov

OBM

May 12, 2014

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

FROM: Timothy S. Keen, Director TK

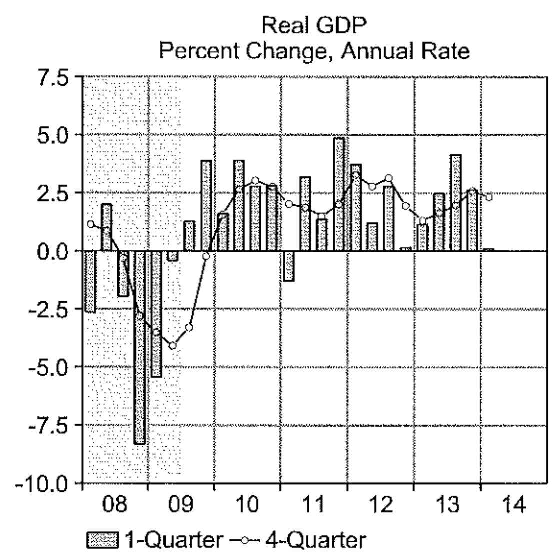
SUBJECT: Monthly Financial Report

ECONOMIC SUMMARY

Economic Performance Overview

- Real GDP was essentially flat in the first quarter, and subsequent data releases suggest that future revisions will show that GDP declined. Still, forecasters expect solid growth in the current quarter and thereafter.
- U.S. employment increased by 288,000 jobs in April. The unemployment rate fell by 0.4 percentage points to 6.3%, although the size of the decline owed much to one of the largest ever monthly declines in the labor force as many unemployed people stopped looking for work.
- Ohio employment increased by 600 jobs in March for a year-to-date increase of 14,000 jobs. The Ohio unemployment rate decreased 0.4 percentage points for the second month in a row in March to 6.1% – the lowest level since April 2008.
- Leading economic indicators remain consistent with uninterrupted growth at a modest pace across the country and in Ohio.

Economic Growth



Economic growth temporarily ground to a halt in the first quarter. **Real GDP** was essentially unchanged, rising at an annual rate of only 0.1%. Data on other key indicators released since the GDP report suggest that upcoming revisions might reveal that real GDP actually declined during the quarter. Compared with a year earlier, real GDP was higher by 2.3%, which is the average year-over-year growth for the latest 17 quarters of the recovery. On a quarter-to-quarter basis, growth slowed after having accelerated to an annual pace of 3.4% in the second half from 1.8% in the first half of 2013.

Real final sales of domestic product, which excludes the effect of the change in inventories, advanced 0.7%, down from 2.7% in the fourth quarter. Real final sales to domestic purchasers, which excludes the inventory effect and sales abroad, expanded by 1.5%, about the same as in the fourth quarter. The continued growth in real final sales to domestic purchasers – even at a modest pace – suggests that the abrupt slowdown in real GDP during the quarter was due to temporary factors.

Growth in the first quarter was driven by an increase in personal consumption expenditures that was partly offset by negative contributions from a number of categories: exports, inventory accumulation, nonresidential fixed investment, residential fixed investment, and state and local government spending. Federal government spending added marginally to growth during the quarter. Imports, which are subtracted from other components of GDP to arrive at the total, decreased.

The **deceleration in first quarter** real GDP primarily resulted from the slowdown in exports and in nonresidential fixed investment, a decrease in inventory accumulation, a slowdown in personal consumption expenditures, and the decline in state and local government spending. The upturn in federal government spending and the decrease in imports were partial offsets to the slowdown.

The 3.0% increase in personal consumption expenditures was similar in size to the 3.3% increase in the fourth quarter, but most of the increase represented one-time factors. Spending on services increased by 4.4%, reflecting higher heating costs due to the severe winter weather and greater spending on health care due to the Affordable Care Act. Utility bills will almost certainly decline by more than the usual seasonal amount in the current quarter, and the ramp up in health care spending will likely not be repeated.

The **current economic expansion** will reach its fifth anniversary in June, at which point it will have lasted exactly as long as the average of the previous ten expansions, dating back to the one that started in October 1949. But the length of expansions has varied greatly, so simply knowing that the current expansion is equal to the average is not very informative by itself.

The longest expansion in the post-war period lasted from March 1991 to March 2001. Next to the one-year upturn from July 1980 to July 1981 – which some view as a brief respite within a recessionary period that stretched from January 1980 until November 1982 instead of as a normal expansion – the shortest expansion lasted two years, from April 1958 to April 1960.

Growth Rates During Expansions
That Lasted at Least 18 Quarters
During 1949Q2-2014Q1

Recovery Beginning in	Annualized Growth Rates: Real GDP	Real Final Sales
1961Q1	6.0%	5.7%
1975Q1	4.4%	4.2%
1982Q4	4.9%	4.6%
1991Q1	3.2%	3.1%
2001Q4	3.0%	2.7%
Mean	4.3%	4.1%
Median	4.4%	4.2%
2009Q2	2.2%	1.8%

Source: Bureau of Labor Statistics

The current expansion is still just a youngster by relatively recent standards. The three previous expansions, starting with the one that began in

November 1982, averaged 7.9 years, or 58% longer than this expansion will have lasted in June. It is reassuring to note that researchers have shown that postwar expansions seem to not be duration dependent, that is, they are not inherently more likely to end as they get older. More importantly, there is no evidence of the type of shocks that have in the past helped to precipitate the end of expansion.

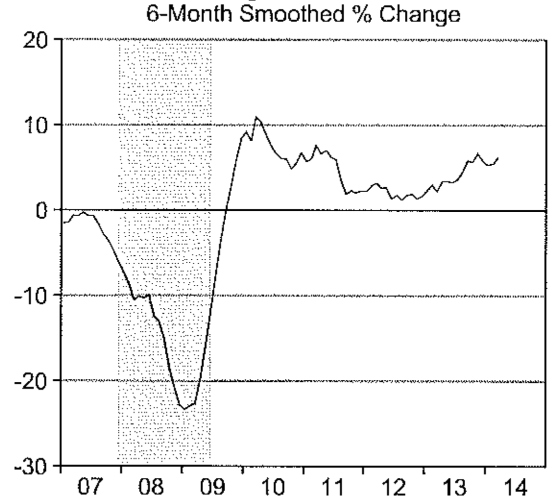
The usual suspects in the demise of previous economic expansions have been a tightening in monetary policy to address rising inflation and large increases in energy costs. The Federal Reserve still seems far away from even starting to unwind its easy monetary policy, let alone beginning to tighten policy. Energy costs are quite elevated by historical standards, but what really seems to matter from a business cycle perspective more than levels is the size and direction of shifts. The last big increase in the price of energy occurred – not surprisingly – in 2007-08, as the economy was headed for a recession. Since then, energy prices have been on a plateau – not good for household budgets, but not threatening to the expansion.

Longevity aside, the fruits of the current expansion have been relatively meager. Since the expansion officially began in the second quarter of 2009, real GDP has advanced at an annual rate of 2.2% – the slowest pace during the first nineteen 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 3.1% on average during the first nineteen quarters of the relatively moderate 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 1.8%, compared with approximately 2.9% during the previous two expansions.

Leading indicators remain consistent with uninterrupted growth in 2014. The 4-week moving average of **ECRI's Weekly Leading Index** increased during each of the nine weeks ending April 25, lifting the 26-week smoothed rate of change to 4.2%. The recovery in recent months likely reflects the receding effects of severe winter weather and points toward uninterrupted economic growth ahead.

At the same time, the composite **Leading Economic Index** from the Conference Board has gained strength. The index tacked a 0.8% increase in March on top of a 0.5% increase in February, extending the string of no monthly decreases to twelve and lifting the 6-month smoothed rate of change to 6.2%. Seven out of the ten components made positive contributions during March, and three of those seven were very significant. The strongest contributions came from the average length of the workweek of production workers, initial claims for unemployment compensation, and the interest rate spread.

Leading Economic Index
6-Month Smoothed % Change



Source: The Conference Board

According to the **Ohio Coincident Economic Index**, compiled by the Federal Reserve Bank of Philadelphia, the Ohio economy has picked up in recent months. The index increased at an annual rate of 5.4% during the four months ending in March, up from 1.6% during the previous 4-month period (in fact, Ohio's growth rate is tenth highest in the nation across those four months). 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.

The diffusion of 1-month changes in the Coincident Economic Index across the 50 states remained modestly weak in March with the indexes for nine states recording decreases. The indexes for seven states were lower than three months earlier. The diffusion of changes weakened approximately to this level on two other occasions during this expansion before strengthening again, however. 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 it so far continues to suggest uninterrupted growth in the Ohio and national economies.

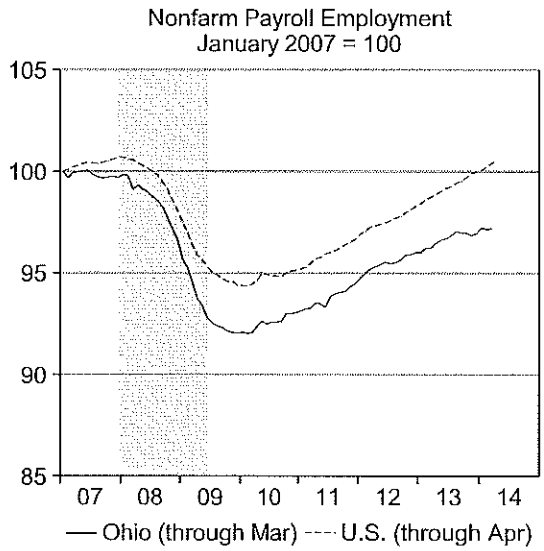
The companion **Ohio Leading Economic Index** remained at 1.9% in March. The February rate was revised down from an initial estimate of 2.5%. The index, which is also compiled by the Federal Reserve Bank of Philadelphia, is designed to predict the rate of increase in the coincident index during the next six months. It had reached a recent low of 0.6% last September. At one point before revision, the August value had been slightly negative. 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 spring and into summer.

The diffusion of positive readings in the individual leading indexes from the Philadelphia Federal Reserve Bank across states also weakened in March, falling below zero in eleven states. The number of states with negative readings increased to double-digits for a single month in September 2010 and to nine in May 2011. It increased to double-digits in April 2007, eight months before the onset of the 2007-09 recession, and kept climbing for a year and a half to include all 50 states by late 2008. The recent softening bears watching, but appears to be a reflection of temporary weather-related effects.

The **consensus of economic forecasters** is that real GDP growth will pick up over the balance of the year. Global Insight, for example, predicts real GDP growth of 3.5% during the current (second) quarter and growth of 2.7% to 3.0% during the balance of the year, rising to above 3% during 2015.

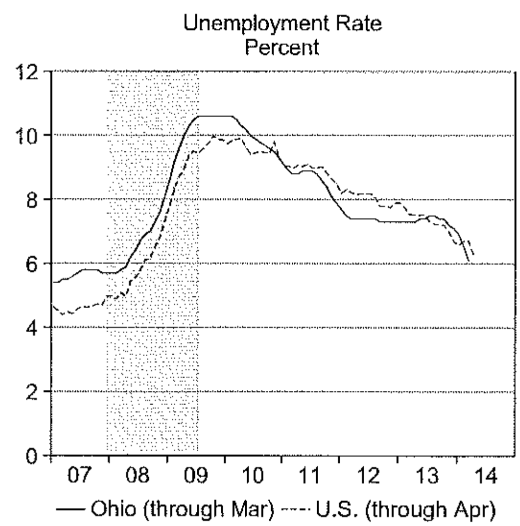
Employment

Labor markets continued to strengthen in April, as the effects of the severe winter weather receded. **Nonfarm payrolls** increased by 288,000 jobs, and the February and March increases were revised higher by a total of 36,000 jobs. The recent pattern is highly consistent with the severe winter weather having been responsible for the slower pace of job growth during December and January, (gains of 84,000 jobs and 144,000 jobs, respectively). The monthly change in employment averaged 238,000 jobs during February-April, somewhat above the average of 204,000 jobs during January-November, before the severe weather hit.



Job growth was strongest in professional and business services (+75,000), which includes the temporary help category (+24,000), education and health services (+40,000), retail (+35,000), construction (+32,000), and leisure and hospitality (+28,000). Government employment was up by 15,000 employees, and manufacturing employment increased by 12,000 jobs.

The U.S. **unemployment rate** fell by a large 0.4 percentage points in April to 6.3% – its lowest mark since September 2008. The broadest measure of unemployment, which includes discouraged workers and those working part-time for economic reasons, fell by the same amount to 12.3%. The large drop in the unemployment rate resulted primarily from the fourth largest 1-month decrease in the labor force dating back to 1948. The expiration at the end of last year of extended unemployment compensation might have contributed to the decline in the labor force, although decomposition of net labor force changes into entry and exit amounts shows that the April weakness was primarily the result of a very low number of labor force entrants, not a large number of exits. Suggesting that the decline in the unemployment rate is not an unequivocal sign of strength in labor markets, the labor force participation rate fell back to the low point for the cycle of 62.8% and the employment-to-population ratio was at a depressed level of 58.9%.



The average **length of the workweek** for all nonfarm employees was unchanged at 34.5 hours, while the average length of the workweek in manufacturing slipped to 40.8 hours. Manufacturing overtime hours held steady at 3.5. **Aggregate hours worked** increased 0.3% in April after a 0.7% increase in March, fully recouping the weather-related weakness in recent months. Even if aggregate hours are unchanged in May and June, the annual rate of increase for the quarter will be 3.0%, pointing toward a solid increase in real GDP in the second quarter.

Ohio employment increased by 600 jobs in March, and the February change was revised higher from a decrease of 4,600 jobs to a decrease of 2,300 jobs. Year-to-date, Ohio employment is higher by 14,000 jobs. Manufacturing employment decreased by 3,500 jobs, but construction rebounded by 4,600 jobs. Leisure and hospitality added 4,800 jobs, and professional and business services and educational and health services added 3,200 jobs and 2,400 jobs, respectively. Government employment decreased by 3,200 jobs.

During the twelve months ending in March, employment growth was widespread, with professional and business services (+23,400), leisure and hospitality (+15,800), educational and health services (+14,300), and manufacturing (+11,100) leading the way. Construction added 9,500 jobs during the twelve months, while government (-8,900), financial activities (-3,600), and information (-1,800) all shed jobs.

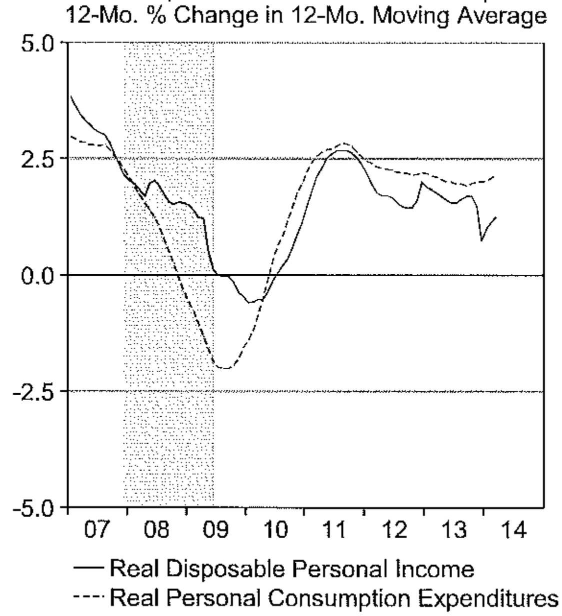
The **Ohio unemployment rate** decreased 0.4 percentage points in March to 6.1% – the lowest level since April 2008. The 1.4 percentage point reduction in the unemployment rate since August of last year resulted largely from a decline in the number of unemployed people (-79,673) and a rise in the number of employed people (+65,726).

Among the **contiguous states**, year-over-year employment growth was strongest in Indiana (+1.6%) and Ohio (+1.0%), compared with smaller increases in Michigan (+0.5%), West Virginia (+0.4%), and Pennsylvania (+0.3%). Employment was lower than a year earlier by 0.2% in Kentucky. Year-over-year growth in manufacturing was 1.5% in Ohio. Among the contiguous states, manufacturing employment increased 2.6% in Indiana and 2.1% in Michigan, and decreased 1.2% in West Virginia, 0.8% in Kentucky and 0.7% in Pennsylvania.

Consumer Income and Consumption

Personal income increased 0.9% in March, following gains of 0.4% each in January and February. Wage and salary disbursements, which accounts for approximately one-half of personal income, increased 0.6%, after gains of 0.4% and 0.3% in January and February, respectively. Personal income has been boosted this year by additions to Personal Current Transfer Receipts from implementation of the Affordable Care Act (ACA). Excluding all transfer payments, personal income increased 0.2% in January, 0.3% in February, and 0.5% in March. Compared with a year ago, personal income was higher by 3.4% and wage and salary disbursements were also higher by 3.7%.

Real Disposable Income and Consumption
12-Mo. % Change in 12-Mo. Moving Average

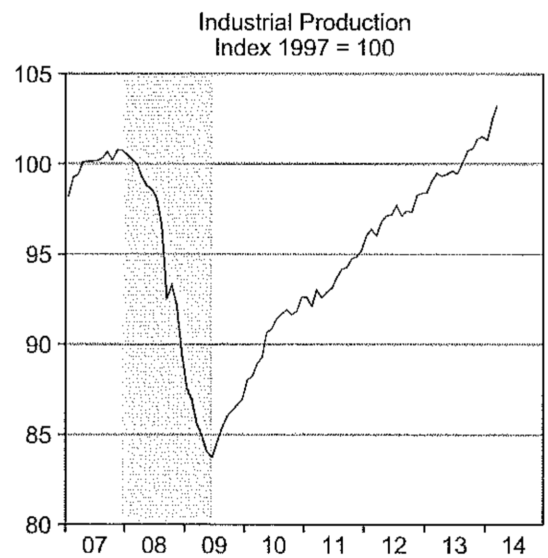


Personal consumption expenditures increased 0.9% in March on top of the 0.5% rise in February. Spending for durable goods increased 2.6% in March after a 1.1% increase in February as unit sales of light motor vehicles increased 6.9% to an annual pace of 16.4 million units. Auto sales declined in April, but remained at a relatively high level of 16.0 million units at an annual rate. Spending on non-durable goods and services increased by 0.8% and 0.7%, respectively. The strong growth in spending pulled the saving rate down to 3.8% – the lowest level since January 2013. Large increases in spending on big-ticket durable goods are often associated with a temporary dip in the saving rate.

As shown in the nearby chart, the smoothed rates of change in real income and in consumption have diverged in recent months. Income growth has dropped off and spending growth has held steady. The pattern of consumption is typically smoother than that of income, as households look beyond temporary increases and decreases in income when planning spending.

Consumer confidence continued to strengthen for the most part into March and April. The University of Michigan indexes reached their highest levels since late last spring/early last summer. The Conference Board measures increased notably from January/February to March/April and are much higher than a year earlier. Together, the two surveys reflect the ongoing improvement in labor markets and household finances.

Manufacturing



Industrial production increased 0.7% in March. The February gain that was originally reported as 0.6% was revised up to 1.2%. Capacity use topped 79% for the first time since June 2008. Manufacturing output increased 0.5% and the February gain as revised higher from 0.9% to 1.5%. Utility output increased 1.0%, reflecting the still-colder-than-normal weather. Mining output increased 1.5%, reflecting increased coal, oil and gas production. Compared with a year earlier, industrial production was higher by 3.8% and manufacturing output was higher by 2.8% – major improvements from the previous month.

Of particular importance to the **Ohio economy**, motor vehicle assemblies increased 6.3% to a seasonally adjusted annual rate of 12.1 million units in March – up sharply from December and the best single month since March 2006. Outside of motor vehicles, production across other industries that are important to Ohio was weaker on the month. Production of **primary metal** decreased by 1.5% in March, production of **fabricated metal** decreased 0.1%, and production of **machinery** decreased 0.8%. 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.

Purchasing managers at manufacturing firms reported more widespread improvement in activity for the third straight month in April, further indicating that the weakness in January was a temporary weather-related episode. The **purchasing managers index** increased to 54.9 in April from 53.7 in March. The new orders index was stable at 55.1, and the production index dipped only slightly to 55.7 from 55.9. Readings near 50.0 are considered neutral, indicating a balance between reports of rising and falling activity. Thus, these readings above 50 indicate increasing economic activity.

Construction

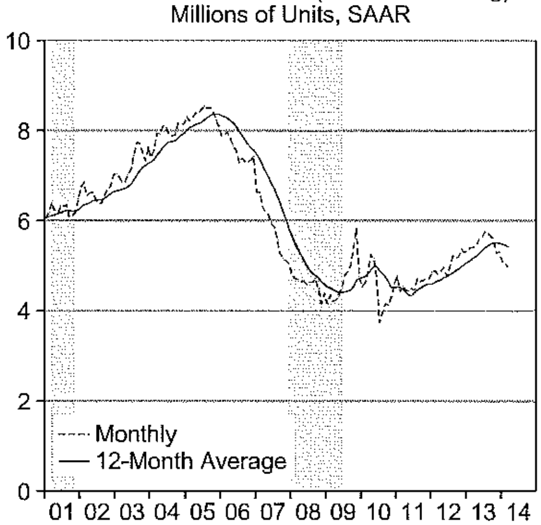
Construction put-in-place increased by 0.2% in March, and the January and February changes were both revised lower. The weak 3-month showing followed growth at a 12.1% annual pace during the nine months ending in December. From the low point in February 2011, construction spending has increased 25.0%, or 7.5% annualized during the 37 months ending in March 2014. Despite this gain, the pace of construction remains 22.3% below the March 2006 peak.

Compared with a year earlier, total construction put-in-place was higher by 8.4% in March. Private construction was up 12.5%, while public construction was down 0.8%. Propelled by both single-family and multi-family categories, private residential construction was higher by 16.0% year-over-year. Nonresidential construction increased 8.6% from March 2013, fueled by communication (+33.5%), lodging (+30.4%), transportation (+19.8), office (+13.5%), amusement and recreational (+10.7%) and commercial (+9.3%). Only religious (-19.0%) and healthcare (-3.2%) posted year-over-year declines among nonresidential categories.

The weakness in housing that became evident several months ago continued in March. **Housing starts** decreased 2.7% across the country on a 3-month moving average basis in March. Both single-family and multi-family starts posted weather-related declines across the Midwest in March after very large declines in January and February, on a 3-month moving average basis.

Housing permits were flat across the country in March on a 3-month moving average basis after little change in February. Single-family permits declined, while multi-family permits increased. Activity in the Midwest exhibited a similar pattern, except that total permits increased by 6.2%. In light of steady growth in employment and still-low mortgage rates, the recent weakness in residential construction appears related to the severe weather. But recent evidence suggests that rising home prices and higher mortgage rates than a year ago have also had an effect.

Total U.S. Home Sales (New and Existing)
Millions of Units, SAAR



Existing home sales decreased across the country and in the Midwest for the sixth month in a row on a 3-month moving average basis. Nationally, sales were 13.5% lower in March than in September on a

3-month moving average basis. In the Midwest, sales were 18.9% lower than in September. New home sales have been stronger, with the 3-month moving averages rising 11.9% across the country but falling 4.6% from September in the Midwest.

Inventory of existing homes for sale remained relatively stable again in March. Available existing homes for sale increased marginally to a still-low level of only 5.2 months of supply at the current pace of sales. The **inventory of new homes for sale** moved slightly higher in absolute terms and increased to 6.0 months of supply at the current pace of sales.

Home prices increased for the twenty-fifth straight month in February, according to the S&P/Case-Shiller Index of prices in 20 major markets. The index was 12.9% above its year ago level and 23.4% above its recession trough, but remained 18.1% below the peak reached in April 2006.

REVENUES

April **GRF receipts totaled $2,778.5 million** and were $69.6 million (2.6%) above the estimate. Monthly tax receipts totaled $1,909.2 million and were $111.7 million (5.5%) below the estimate, while non-tax receipts totaled $866.3 million and were $178.6 million (26.0%) above estimate. Variances for the fiscal year to date by category are provided in the following table ($ 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	$259.1 million	1.6%
Non-tax receipts	Federal grants, earnings on investments, licenses & fees, other income, intrastate transfers	$2.6 million	0.0%
Transfers	Budget stabilization, liquor transfers, capital reserve, other	$48.7 million	695.8%
TOTAL REVENUE VARIANCE:		**$310.4 million**	**1.3%**

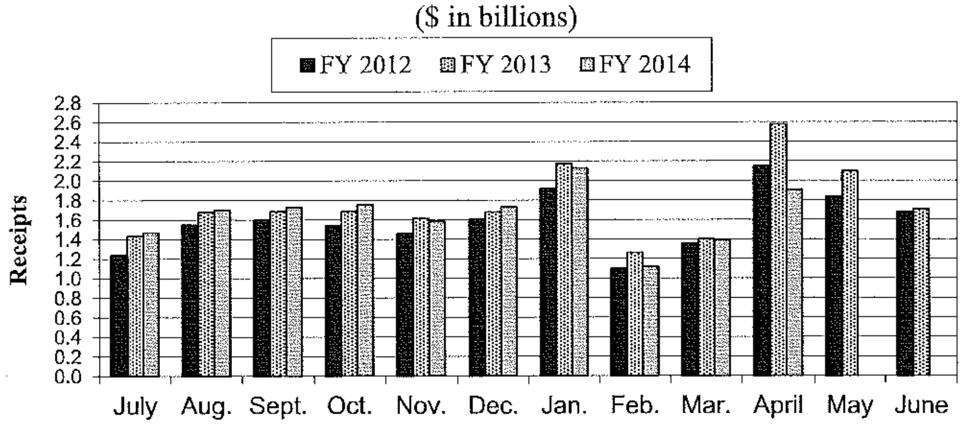
On a year-over-year basis, monthly receipts were $456.1 million (14.1%) lower than they were in April of the previous year, as some revenue sources decreased due both to tax policy changes and timing differences between the two fiscal years. A large decrease of $754.0 million (45.2%) in personal income tax receipts, when compared to April of the previous fiscal year, was partially offset by an increase in sales and use tax receipts of $114.0 (15.6%) The decrease in the income tax was in part due to the impact of the 9% cut in withholding rates implemented in September 2013, the impacts of the 2013 tax rate cuts (8.5%) and the small business deduction (50% of business income, up to a cap), and the impact on fiscal year 2013 of taxpayers accelerating income into tax year 2012 in response to federal tax law changes. A large year-over-year decrease of $35.1 million (120.7%) in corporate franchise tax receipts due to the tax's elimination was compensated two-thirds of the way by the new financial institutions tax collections of $23.7 million. The increase in non-tax receipts was largely due to a jump in federal Medicaid reimbursements relative to April of last year.

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

Individual Sources Above Estimate		**Individual Sources Below Estimate**	
Federal Grants	$169.0	Personal Income Tax	($156.9)
Financial Institutions Tax	$20.4	Corporate Franchise Tax	($6.0)
Auto Sales & Use Tax	$12.6	Foreign Insurance Tax	($4.1)
Non-Auto Sales & Use Tax	$8.9	Other Income	($1.6)
ISTV's	$8.4	Cigarette Tax	($1.3)
Commercial Activity Tax	$7.3		
Estate Tax	$4.4		
Transfers In	$2.8		
Kilowatt-Hour Tax	$2.1		
Earnings	$1.4		
Licenses and Fees	$1.3		
Other Sources Above Estimate	$0.9	Other Sources Below Estimate	($0.1)
Total above	**$239.6**	**Total below**	**($170.0)**

(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

April non-auto sales and use tax collections followed last month's healthy trend and were above estimate, this time by $8.9 million (1.3%) for a total $711.6 million in tax receipts for the month. A stronger-than-expected performance allowed the year-to-date shortfall to drop further from $47.1 million last month to $38.2 million (0.6%) by the end of April. The year to date shortfall is now almost equal to the one time refund of prior year collections ($32 million) in February.

On a year-over-year basis, April 2014 receipts were $95.8 million (15.6%) above the $615.8 million collected in the same month of the previous fiscal year. The positive variance is a function of both growth in the tax base and of the rate change enacted in H.B. 59. (The state tax rate increased from 5.5% to 5.75% in September, which has since boosted collections by approximately 4.5% relative to last year.)

Auto Sales Tax

April auto sales and use tax revenues continued to perform better than estimated with receipts totaling $132.2 million exceeding the estimate by $12.6 million (10.5%). Strong sales in March likely contributed to the above estimate performance, given there is a slight lag between the sale of an auto and when the state receives the tax. Nationally, light-vehicle sales dropped slightly to 16.0 million units (seasonally adjusted annual rate) in April from 16.3 million units last month. Auto sales still show a healthy trend, especially considering this is the first time since the Great Recession that demand for light-vehicles remained above 16.0 million units for two months in a row.

Year-to-date collections remained above estimate and the overage grew further to $32.7 million (3.4%), signaling the winter slowdown is no longer depressing auto sales. On a year-over-year basis, monthly receipts were again considerably healthier than same month in the previous year, while year-to-date receipts grew to $97.3 million (10.8%) above collections for the same period in the prior fiscal year. As mentioned in the non-auto sales tax section, this year-over-year increase was partly due to the rate change enacted in H.B. 59.

Personal Income Tax

April personal income tax receipts totaled $902.2 million and were $156.9 million (14.8%) below the estimate. The payments associated with annual returns accounted for more than the entire shortfall. This component totaled $519.5 million and was $222.8 million (30.0%) below the estimate of $742.3 million. This could be partly attributed to the delayed impact of an income tax deduction enacted in H.B. 59 for small business income, although at this point it is difficult to disentangle the extent to which the shortfall is tied to the small business exemption versus other factors.

The withholding component of the tax exceeded the estimate for a third month in a row following three consecutive months with a shortfall. April receipts for this component totaled $684.5 million and were $21.4 million (3.2%) above the estimate of $663.1 million. As a result, the year-to-date positive variance for this component has increased to $61.6 million (0.9%). The quarterly estimated payments and trusts were other components with a positive variance, with respective overages of $28.2 million (27.4%), and $10.7 million (58.4%).

Refunds have continued the past few months' trend of registering lower-than-estimated levels, though the deviation appears to be tapering. April refunds totaled $453.8 million and were $11.0 million (2.3%) short of the estimate of $464.7 million. Recalling the discussion in last two months' reports regarding the uncertain timing of the impacts of the various income tax reductions enacted by H.B. 59, OBM expects that the questions about the impacts may not be completely resolved until extension returns are filed in early months of fiscal year 2015.

On a year-over-year basis, April personal income tax receipts were $745.0 million (45.2%) below the April 2013 level. Payments associated with annual returns have accounted for more than two-thirds of this decline registering $571.6 million (52.4%) lower than the level of the same month of the prior fiscal year, presumably due to the 8.5% tax rate cut, combined with 50% income tax deduction, for up to the first $250,000 of income from certain sources, allowed for small business income enacted in H.B. 59. The quarterly estimated payments also showed a decline of $47.4 million (26.5%) compared to the level of the same month in the prior fiscal year. Refunds also contributed to the total decline, by being $137.6 million (43.5%) higher than the level recorded in April of the previous fiscal year.

Year-to-date, personal income tax receipts for the first ten months in fiscal year 2014 exceeded the estimate by $254.0 million (3.9%) but were $1,130.9 million (14.3%) lower than the level in the corresponding period of fiscal year 2013. Lower collections in the current year compared to the prior year were primarily due to tax rate cuts and the new small business income deduction enacted for tax year 2013 in H.B. 59. Year-over-year income growth may have also been subdued by an acceleration of income into tax year 2012 to avoid federal tax increases, thus boosting fiscal year 2013 income tax revenues (but depressing fiscal year 2014 revenues).

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

	ESTIMATE APR	ACTUAL APR	$ VAR APR	ESTIMATE Y-T-D	ACTUAL Y-T-D	$ VAR Y-T-D
Withholding	$663.1	$684.5	$21.4	$6,609.0	$6,670.6	$61.6
Quarterly Est.	$103.0	$131.2	$28.2	$902.3	$993.1	$90.8
Trust Payments	$18.3	$29.0	$10.7	$49.7	$55.3	$5.6
Annual Returns & 40 P	$742.3	$519.5	($222.8)	$963.4	$780.2	($183.2)
Other	$18.1	$15.6	($2.5)	$126.2	$103.7	($22.5)
Less: Refunds	($464.7)	($453.8)	$10.9	($1,861.5)	($1,552.2)	$309.3
Local Distr.	($21.0)	($23.8)	($2.8)	($273.9)	($281.6)	($7.7)
Net to GRF	**$1,059.1**	**$902.2**	**($156.9)**	**$6,515.2**	**$6,769.2**	**$254.0**

Corporate Franchise Tax

As noted in previous months' reports, although corporate franchise tax has been eliminated, prior year settlement activity continues, which resulted in refunds of $6.0 million in April. Thus there continues to be some small amount of monthly activity for this tax, whether settlement payments or refunds, which by definition create variances, since the estimates for this tax are now zero. On a year-over-year basis, April 2014 receipts for this tax source were $35.1 million (120.7%) below those of April 2013.

Financial Institutions Tax

April receipts totaled $23.7 million and were $20.4 million above the estimate. As mentioned in last month's report, this overage should be viewed along with the shortfall of last month, since the due date was March 31st, which resulted in spill-over effects into April. Combining the two month's performances provides a clearer picture – the combined receipt for March and April totaled $64.8 million and was marginally lower than the combined estimate of $65.6 million. Year-to-date receipts totaled $148.4 million and exceeded the estimate by $4.9 million (3.4%).

Commercial Activity Tax

April commercial activity tax (CAT) receipts to the GRF totaled $31.6 million and were $7.3 million (29.9%) above the estimate of $24.3 million. With April's overage, the year-to-date GRF CAT receipts total $623.9 million and are now $12.4 million (1.9%) below estimate.

All-funds CAT receipts for April (net of refunds) totaled $58.6 million and were $9.6 million (19.6%) above the $49.0 million estimate. All-funds receipts for the year-to-date totaled $1,321.0 million and were $56.7 million (4.1%) below the estimate.

Year-to-date, GRF CAT receipts have decreased from fiscal year 2013 by $5.1 million (0.8%), while all-funds CAT receipts have increased by $48.3 million (3.8%) from the previous fiscal year. 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 now being calculated against a smaller base that excludes motor fuel related collections ($52.3 million year-to-date).

Kilowatt-Hour Tax

April kilowatt hour tax receipts totaled $30.9 million and were $2.1 million (7.3%) above estimate for the second month in a row. Year-to-date collections continued to improve but remained below the estimate by $6.0 million (2.2%). On a year-over-year basis, this tax source was significantly above the $25.7 million collected in April 2013. However, year-to-date collections continue to lag last year's by $5.1 million (-1.9%).

Natural Gas Distribution Tax (MCF Tax)

April natural gas distribution tax receipts totaled $4.7 million and were $0.9 million (22.8%) above the estimate. Year-to-date receipts from the natural gas distribution tax increased to $41.3 million and were $9.5 million (30.0%) above the estimate. This strong performance was most likely a consequence of the long, harsh winter.

Cigarette Tax

Cigarette tax receipts for April totaled $66.9 million and were $1.3 million (2.0%) below the estimate of $68.2 million. On a year-over-year basis, April 2014 cigarette tax receipts were $4.8 million (6.7%) below the level for the same month of the previous fiscal year. Year-to-date, the collection for the first ten months of fiscal year 2014 was lower than the estimate by $1.2 million (0.2%), and was $8.3 million (1.3%) below the level in the corresponding period of fiscal year 2013.

GRF non-tax receipts totaled $866.3 million in April and were $178.6 million (26.0%) above estimate. The majority of this overage was due to a $169.0 million (57.2%) positive variance in federal revenue that can be primarily attributed to higher than estimated GRF Medicaid spending, as well as the composition of that spending (some of the overspending was in categories with high federal match rates). Adding to the variance was also $9.6 million in ISTV's which exceeded estimate by $8.4 million and is attributable to a deferred payment received from JobsOhio under the provisions of the liquor franchise transfer agreement.

April GRF transfers totaled $3.0 million and were $2.8 million above estimate. Year-to-date, transfers total $55.7 million and are $48.7 million (695.8%) 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 data became available.

DISBURSEMENTS

April GRF disbursements, across all uses, totaled $2,525.0 million and were $184.3 million (6.8%) below estimate. This was primarily attributable to lower than estimated disbursements in the Property Tax Reimbursement category being partially offset by higher than estimated disbursements in the Medicaid category. On a year-over-year basis, April total uses were $158.9 million (5.9%) lower than those of the same month in the previous fiscal year, with the Property Tax Reimbursements category largely responsible for the decrease. Year-to-date variances by category are provided in the table below.

Category	Description	YTD Variance	% Variance
Expenditures and transfers between agencies (ISTVs)	State agency operations, subsidies, tax relief, debt service payments, and pending payroll (if applicable)	($847.9 million)	-3.3%
Transfers	Temporary or permanent transfers out of the GRF that are not agency expenditures	($6.7 million)	-0.5%
TOTAL DISBURSEMENTS VARIANCE:		($854.6 million)	-3.2%

GRF disbursements are reported according to functional categories. This section contains information describing spending and variances within each of these categories.

Primary and Secondary Education

This category now contains GRF spending for the Ohio Department of Education, minus property tax reimbursements. April disbursements for this category totaled $584.8 million and were $33.0 million (5.3%) below the estimate. Expenditures for the school foundation program totaled $531.4 million and were $14.9 million (2.7%) below the estimate.

Year-to-date expenditures for this category totaled $5,848.6 million and were $136.2 million (2.4%) above the estimate. This was largely driven by the school foundation program, which had year-to-date expenditures of $5,397.3 million and was $179.1 million (3.4%) above the estimate. The year-to-date variance in the foundation funding line items was due to the implementation of the new school funding system enacted in H.B. 59 during the months of October and November, as well as the use of current year, rather than prior year, student count data. Most districts received increases in funding under the new formula and/or with additional students reported for the current year. Additionally, when the Department of Education calculates a funding increase on an annual basis, increases include retroactive payments for the already completed portion of the fiscal year. Disbursements should be less than planned each month for the remainder of the fiscal year.

Higher Education

April disbursements for Higher Education totaled $174.1 million and were $9.5 million (5.8%) above the estimate for the month. Year-to-date disbursements were $1,746.4 million, which was $2.2 million (0.1%) below the estimate. The most significant monthly variance was due to spending in the Ohio National Guard and the Ohio College Opportunity Grant Scholarship Programs being above the monthly estimate by $4.7 million as a result of higher than expected requests for reimbursement from higher education institutions. A slightly smaller portion of the monthly variance, $3.0 million, was due to the disbursement of two subsidy line items in April rather than in May, as originally reflected in the agency disbursement estimates. Finally, the remainder of the monthly variance, $1.4 million, was due to timing associated with the receipt and payment of a single invoice in April that was originally estimated to be paid incrementally over the course of several months.

On a year-over-year basis, disbursements in this category were $9.6 million (5.8%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $35.4 million (2.1%) higher than at the same point in the previous fiscal year.

Other Education

This category includes non-debt service expenditures made by the Broadcast Education Media Commission, the Ohio Facilities Construction Commission, the Ohio State School for the Blind, the Ohio School for the Deaf, as well as disbursements made to libraries, cultural, and arts organizations. April disbursements in this category totaled $3.8 million and were $4.0 million (50.8%) below estimate. The variance in this category was partly attributable to the Ohio Historical Society's quarterly subsidy appropriation disbursing in March rather than in April, as discussed in last month's report.

Medicaid

As discussed in previous reports, this new category includes all Medicaid disbursements from the H.B. 59-created "650 series" Medicaid line items. Therefore, this category includes all Medicaid spending on services and program support by the following six agencies: the new Department of Medicaid (651 prefix), the merged Department of Mental Health and Addiction Services (652), the Department of Developmental Disabilities (653), the Department of Health (654), the Department of Job and Family Services (655), and the Department of Aging (656).

While this line item restructuring was done to greatly improve the transparency of Medicaid spending across state agencies, it does create a one-time challenge for year-over-year comparisons by month. That is because a number of line items that contained Medicaid spending in fiscal year 2013 (and prior) also included non-Medicaid spending. While we can determine the annual Medicaid spending within these "mixed use" lines for fiscal year 2013, it is very difficult to determine the Medicaid/non-Medicaid breakdown by month. Therefore, fiscal year 2013 monthly expenditures were established to enable year-over-year comparisons by applying the respective line item's annual percentage of Medicaid spending to the monthly actual spending.

<u>Expenditures</u>
Year-to-date GRF disbursements for the Medicaid Program totaled $12,005.6 million and were $500.2 million (4.0%) below the estimate and $591.0 million (5.2%) above the same point in the previous fiscal year. GRF Disbursements in April totaled $1,295.3 million and were $182.3

million (16.4%) above the estimate and $100.2 million (8.4%) above disbursements in the same month of the previous fiscal year.

April all-funds disbursements totaled $1,682.6 million and were $194.6 million (10.4%) below the estimate and $127.5 million (8.2%) above disbursements at this point in the previous fiscal year. The April overage currently observed in the GRF corresponds to much of the underage in the non-GRF as certain expenditures are temporarily shifted to the GRF.

The chart below shows the current month's disbursement variance by funding source. Please note that estimates are based on appropriations as passed in H.B. 59.

(in millions, totals may not add due to rounding)

	April Projection	April Actual	Variance	Variance %
GRF	$ 1,113.0	$ 1,295.3	$ 182.3	16.4%
Non-GRF	$ 764.2	$ 387.4	$ (376.9)	-49.3%
All Funds	$ 1,877.2	$ 1,682.6	$ (194.6)	-10.4%

Categorical Variances

ACA Physician Fee Increase – Spending for this federally-mandated and 100% federally-funded increase was $95.9 million above the monthly estimate primarily due to the disbursement of certain provider-related costs not known at the time when estimates were finalized.

MyCare Ohio – Expenditures within this new managed care group were $128.9 million below the estimate due to a change in the rollout of the program.

Hospital UPL – This non-GRF category was $125.9 million under estimate due to the timing of a payment originally scheduled in April, but to be made later in the fiscal year.

Medicaid Extension – Medicaid benefits were extended to certain Ohioans who were previously ineligible effective January 1, 2014. In April, expenditures in this 100% federally-funded, non-GRF category totaled $94.6 million. Year-to-date expenditures totaled $173.6 million and represent 30.9% of the $561.7 million appropriated for this fiscal year.

Enrollment

Total April enrollment across all categories was 2.55 million. The most significant components are the Covered Families and Children (CFC) category, which increased by 23,815 persons to an April total of 1.88 million persons, and the Aged, Blind and Disabled (ABD) category, which decreased by 102 people to an April total of 436,085 covered lives.

Individuals covered under Medicaid extension (eligibility group VIII) totaled 184,671, and are included as part of the larger CFC category.

Total enrollment across all categories for the same period last year was 2.38 million covered persons, including 1.70 million persons in the CFC category and 422,126 people in the ABD category.

Please note that these data are subject to revision.

Health and Human Services

This category includes non-debt service GRF expenditures for the following state agencies: Job and Family Services, Health, Aging, Developmental Disabilities, Mental Health and Addiction Services, and others. Examples of expenditures in this category include: child care, TANF, administration of the state's psychiatric hospitals, operating subsidies to county boards of developmental disabilities, various immunization programs, and Ohio's long term care ombudsman program. To the extent that these agencies spend GRF to support Medicaid services, that spending is reflected in the previous category.

April disbursements in this category totaled $110.0 million and were $38.5 million (25.9%) below estimate for the month.

Department of Job and Family Services
The Ohio Department of Job and Family Services GRF disbursements in April totaled $68.9 million and were $4.7 million (6.4%) below estimate. Major variances for the month were attributable to TANF State/Maintenance of Effort disbursements, which were $3.9 million (15.3%) below estimate; Child Care State/Maintenance of Effort disbursements, which were $5.3 million (45.2%) above estimate; and Early Care and Education disbursements, which were $3.1 million (54.4%) below estimate. These were all due to changes in the disbursement schedules as a result of the federal shutdown, as discussed in previous reports. In addition, Information Technology disbursements were $1.5 million (35.6%) below estimate due to invoices not being received in April as previously anticipated. Year-to-date expenditures totaled $578.7 million and were $57.8 million (9.1%) below estimate. This variance is due partly to the changes in disbursement schedules as discussed above, and lower than estimated expenditures in Program Support and Information Technology Projects.

Department of Health
April disbursements for the Department of Health totaled $4.5 million and were $3.2 million (41.1%) below estimate for the month. April's variance was driven partly by Help Me Grow disbursements being $1.4 million (41.2%) below estimate due to planned expenditures for April occurring earlier in the fiscal year, and Federally Qualified Health Center disbursements being $0.7 million (99.8%) below estimate, though the funds have been encumbered for future disbursement. Year-to-date expenditures were $68.1 million, which were $2.0 million (2.8%) below estimates.

Opportunities for Ohioans with Disabilities
April disbursements for Opportunities for Ohioans with Disabilities totaled $1.5 million, which were $1.5 million above estimated expenditures for the month. This variance is primarily due to the Services for People with Disabilities program's disbursements totaling $1.5 million above estimate, as expenditures originally planned for earlier in the fiscal year were instead paid in April. Year-to-date expenditures were $15.6 million, which was $0.09 million (0.6%) below estimate.

Department of Mental Health and Addiction Services
April disbursements for the Department of Mental Health and Addiction Services totaled $15.1 million and were $31.6 million (67.7%) below estimate. This is due primarily to $29.2 million in subsidy payments initially expected to be paid in April in the Continuum of Care Services and Community Behavioral Health appropriation line items being paid in later months instead. It is expected that this variance will reverse itself by year-end.

Justice and Public Protection

This category includes non-debt service GRF expenditures by the Department of Rehabilitation & Correction, the Department of Youth Services, the Attorney General, judicial agencies, and other justice-related entities. April disbursements in this category totaled $180.4 million and were $33.5 million (15.7%) below the projected totals.

Department of Rehabilitation and Correction
Department of Rehabilitation and Correction disbursements totaled $148.3 million in April, and were $26.7 million (15.2%) below the estimate. This variance was attributable to the timing of the posting of a payroll in late-March that was estimated for early-April, as discussed in last month's report. Department disbursements year-to-date were $1,215.6 million, which was $21.0 million (1.7%) below estimate. This variance is within the normal range of agency disbursements during the fiscal year.

Department of Youth Services
Department of Youth Services disbursements totaled $14.4 million in April, and were $3.0 million (17.4%) below the estimate. This variance resulted from the timing of the posting of a payroll in late-March that was estimated for early-April, as discussed in last month's report. Department disbursements year-to-date were $172.6 million, which was $3.6 million (2.0%) below estimate. This variance is within the normal range of agency disbursements during the fiscal year.

General Government

This category includes non-debt service GRF expenditures by the Department of Natural Resources, Development Services Agency, Department of Agriculture, Department of Taxation, Office of Budget and Management, non-judicial statewide elected officials, legislative agencies, and others. April disbursements in this category totaled $31.8 million and were $7.1 million (18.2%) below the estimate.

Department of Administrative Services
The Department of Administrative Services (DAS) disbursements totaled $5.8 million in April and were $3.5 million (155.1%) above the estimate. This occurred because DAS changed its method for calculating building rental rates, per federal requirements. As a result, the fiscal year 2014 rates for these buildings were recently finalized. In April, DAS caught up on making rent payments from its GRF appropriations that pay rent for GRF-supported state agencies and vacant space in state buildings managed by DAS. This was expected following earlier months with underspending compared to estimates because of the delayed rental rates.

Department of Natural Resources
April disbursements for the Department of Natural Resources totaled $3.9 million and were $0.7 million below estimate (15.4%). Year-to-date disbursements are $46.6 million which is $2.1 million (4.7%) above the estimate. Monthly variances were attributable to the Parks and Recreation ($0.3 million) and the Forestry ($0.2 million) lines; both were under budget due to spending less from the GRF than planned.

Development Services Agency
April disbursements for the Development Services Agency totaled $1.4 million and were $2.1 million (60.5%) below estimate. Year-to-date disbursements totaled $31.1 million and were $8.9 million (22.3%) below the estimate. Monthly variances were attributable to the Business Development Grants, the Business Assistance, the Industrial Training Grants, and the Redevelopment Assistance lines being below estimate due to fewer than anticipated grant disbursements being paid in April. OBM expects this variance to decrease as more grant disbursements are paid in future months.

Department of Taxation
April disbursements for Operating Expenses at the Department of Taxation totaled $4.9 million and were $2.0 million (28.6%) below the estimate for the month. Year-to-date disbursements were $53.9 million, which was $5.7 million (9.6%) below the estimate. The monthly variance is due to a timing issue, since original April disbursements expected three pay periods, which actually happened in March. March was, in turn, over estimate. Year-to-date under spending reflects payroll savings resulting from attrition and planned efficiencies.

On a year-over-year basis, disbursements for operations were virtually the same as in April of the previous fiscal year, while year-to-date expenditures were $6.5 million (10.8%) lower than at the same point in the previous fiscal year.

Property Tax Reimbursements

Payments from the property tax reimbursement category are made to local governments and school districts to reimburse these entities for revenues foregone as a result of the 10.0 percent and 2.5 percent rollback, as well as the homestead exemption. April disbursements of property tax reimbursements totaled $64.2 million and were $268.0 million (80.7%) below the estimate. This variance is due to reimbursement requests being received from counties later than anticipated and as a result, OBM expects May disbursements to be well above estimate. Through April, property tax reimbursement distributions totaled $978.8 million and were $282.9 million (22.4%) below the estimate of $1,261.7 million. Following corrections for the timing based April variance, it is expected that total reimbursements will end the fiscal year approximately $20 million below estimate.

Debt Service

This category contains all debt service expenditures made from the GRF. April debt service payments totaled $58.2 million and were $7.6 million (11.5%) below the estimate of $65.8 million. Year-to-date, the debt service category disbursed $1,148.4 million and was $47.8

million (4.0%) below the estimate of $1,196.2 million. For fiscal year 2014 as a whole, OBM is projecting debt service spending from the GRF to be approximately $60 million below the annual estimate. The April variance is due to disbursements from the G.O. Higher Education and Job Ready Sites line items being below estimate by $5.5 million and $2.0 million respectively.

Transfers Out

April transfers out of the GRF totaled $22.3 million, which was $15.5 million (228.9%) above estimate. This variance is partly attributable to a transfer of $9.4 million made to the OAKS Support Organization Fund (Fund 5EB0) that was estimated to occur over two months (December and June). The remaining variance was the result of a higher than estimated transfer to the Managed Care Performance Fund (Fund 5KW0) that was estimated to occur in April.

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Ohio Manufacturers' Association

Tax Counsel Report
May 20, 2014

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Administrative Actions:

None of significance to report.

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 voted out by the full House on May 14, 2014, and a summary of the substitute bill is attached to this report. The administration has expressed displeasure with the rate and the base on which the tax is computed, and revenue recipients continue to clamor for a larger piece of the revenue pie.

Judicial Actions:

Ohio Supreme Court

In *Akron City Sch. Dist. Bd. of Edn. v. Summit Cty. Bd. of Revision*, 2014-Ohio-1588, the Supreme Court ruled that where the county auditor determines the value of a parcel pursuant to a sexennial reappraisal, a sale that occurred more than 24 months before the effective date of the new value was not presumed to be "recent" for purposes of R.C. 5713.03. The Court noted that where the county auditor has determined value pursuant to a statutory duty to do so and has determined not to resort to the sale, the sale could not be presumed to be recent and a party relying on the sale would have to present evidence of the value of the property.

In *Panther II Transportation, Inc. v Village of Seville Bd. of Income Tax Rev.*, 2014-Ohio-1011, the Court ruled that a motor transportation company was not subject to municipal income tax. R.C. 4921.25 (now codified at R.C. 4921.19(J)) provides that the payment of a per-vehicle tax to the state precludes all other local taxes. The Village argued that the home rule provisions of the Ohio constitution provided to it the authority to impose its income tax on the company.

In *Hilliard City Schools. Bd. of Edn. v. Franklin Cty. Bd. of Revision*, 2014-Ohio-853, the Court ruled that the fact parties to a transaction are related will not negate the arm's length nature of the transaction unless it is shown that the parties are aligned in a manner that makes their motivations atypical of the market. Absent such a showing the fact the parties are related will not negate the arm's length nature of the sale.

Ohio Court of Appeals

In *Rambacher v. Testa*, 2014-Ohio-1488 (4th Dist.), the Court of Appeals struck down an assessment of income tax where the deficiency was the result of the Department failing to allocate the estimated payments made by spouses who filed separately. In addition, the fact that the erroneous allocation resulted in a refund to the other spouse was ineffectual in setting of the deficiency that was assessed against the other spouse.

In *MacDonald v. City of Shaker Heights Income Tax Bd. of Rev.*, 2014-Ohio-708 (10th Dist.), the Court of Appeals upheld a decision of the BTA that a SERP payment constituted a pension benefit that was not subject to municipal income tax. The tax ordinance in question did not specifically define what constituted a "pension." Based upon evidence presented, the BTA had concluded that a SERP indeed qualifies as a "pension" as the term is commonly understood. The Court of Appeals concluded that decision was neither unreasonable, nor unlawful, and affirmed it.

Ohio Board of Tax Appeals

In *Metamore Elevator Co. v. Fulton Cty. Bd. of Revision*, BTA No. 2011-1854 (May 2, 2014), the BTA held that portable grain bins were personal property, rather than real property, and that their value should be excluded from the determination of th value of the real property constituting the parcel in question.

In *Cunningham v. Testa*, BTA No. 2011-4641 (March 6, 2014), the BTA held that an individual who filed the necessary statement of nonresidence with the tax commissioner because he had fewer than 183 contact periods with the state was conclusively determined to be a nonresident, notwithstanding that he had filed a Homestead Exemption Application with respect to a residence located in Hamilton County. The BTA noted the two provisions do not cross reference each other, and that the taxpayer had satisfied the requirements establishing his nonresidence for state income tax purposes.

In *L.L. Bean, Inc. v. Levin*, BTA No. 2010-2853 (March 6, 2014), the BTA upheld an assessment of tax against a taxpayer who had substantial presence in Ohio pursuant to R.C. 5751.01(H) by virtue of satisfying one or more of the tests for "bright-line" presence set forth in R.C. 5751.01(H) and (I). The BTA declined to address the taxpayer's constitution arguments on the basis that it had no authority to do so.

Tax Commissioner Opinion

No opinions to report.

Updated Severance Tax Proposal Presented in Ohio House of Representatives

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On May 14, 2014, the Ohio House of Representatives passed the second modified version of the severance tax proposal previously introduced on December 4, 2013. The modified legislation, known as Substitute House Bill 375-II (Sub. HB 375-II), proposes to:

- Reduce the severance tax rate on persons extracting oil and gas by means other than horizontal wells (e.g. conventional wells);
- Impose a new, higher severance tax on oil and gas produced through horizontal wells based on "wellhead gross receipts" received at the point of first sale less specified production 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 that are also subject to the income tax.

The Severance Tax: R.C. 5749.02(B) & (C)

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 gas. Sub. HB 375-II 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 with respect to horizontal wells. R.C. 5749.02(B)(5) and (6) provide that with respect to oil and gas produced and sold from conventional wells after October 1, 2014, oil remains taxed at 10 cents per barrel, while the tax on gas is reduced to 1.5 cents per MCF. The latest version of the bill eliminates the variation in rates tied to the age of the well, or to the level of production.

2. Horizontal Oil and Gas Wells

Sub. HB 375-II 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, tax is imposed at a rate of 2.5% on the wellhead gross receipts obtained from the point of first sale of the oil or gas. As in the prior substitute bill, there is no reduced severance tax rate for low-producing wells. Unlike the prior substitute bill, there is no rate variation based on the age of the well.

In place of the lower tax rate applicable to oil and gas produced during the first two or three years of production contained in the prior substitute bill, in proposed R.C. 5749.031 Sub. HB 375-II provides for a flat exclusion of the first $10 million in wellhead gross receipts. This exclusion is intended to serve as a cost-recovery mechanism for drillers.

Chart Summarizing Proposed Ohio Severance Tax Rates

<table>
<tr><th>Date</th><th colspan="3">Vertical Well</th><th colspan="6">Horizontal Well</th></tr>
<tr><td>Existing Law</td><td colspan="3">Gas – 2.5¢ per MCF
Oil – 10¢ per barrel</td><td colspan="6">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">Gas – 1.5¢ per MCF
Oil – 10¢ per barrel</td><td colspan="3">Years 1-5</td><td colspan="3">After Year 5</td></tr>
<tr><td colspan="3">Gas/Oil – 1% of net proceeds</td><td colspan="3">Gas/Oil – 2% of net proceeds (unless production falls below average of 100 MCF per day of 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 colspan="2">Years 0-2</td><td colspan="2">Years 3-20</td><td colspan="2">After Year 20</td></tr>
<tr><td>None</td><td>0.25% of gross receipts</td><td>0.10% of gross receipts</td><td colspan="2">1% of gross receipts</td><td colspan="2">2.25% of gross receipts</td><td colspan="2">1% of gross receipts</td></tr>
<tr><td>Sub. HB 375-II</td><td colspan="3">Gas – 1.5¢ per MCF
Oil - 10¢ per barrel</td><td colspan="6">Gas/Oil – 2.5% of wellhead gross receipts</td></tr>
</table>

3. Severer and First Sale

The definition of "severer" responsible for filing returns and paying the tax is changed with respect to severers of oil and gas. New R.C. 5749.01(I)(2) provides that the severer is the person that has the right to first sell severed oil or gas.

Proposed R.C. 5749.01(N) defines "point of first sale" as the first point after production of oil or gas at which a severer or other person transfers ownership of the oil or gas for consideration. It serves as the ponit at which "wellhead gross receipts" are determined.

4. Wellhead Gross Receipts

As noted previously, Sub. HB 375-II bases the tax on "wellhead gross receipts." Proposed R.C. 5749.01(M) defines "wellhead gross receipts" as the total amount received by a severer or other person from the first sale of oil or gas. Certain post-production costs are excluded from the calculation, but production costs are not.

5. Affiliate and Non-Arm's Length Sales

Proposed R.C. 5749.02(C)(2) provides the tax commissioner with authority to determine by a preponderance of the evidence whether a first sale between affiliates is comparable to other transactions, or that a transaction between nonaffiliated entities is not conducted at arm's length. In such cases, the statute provides cascading options for determining a comparable or arm's length price. The provision also provides guidelines of the factors to be considered in determining whether a transaction between affiliates is comparable to other contracts.

6. Record Retention

Sub. HB 375-II reinstates the four year record retention requirement of existing R.C. 5749.13; the prior substitute bill had increased the record retention period to five year.

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-II 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 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)(7)

Under new language in R.C. 5749.02(D)(7), Sub. HB 375-II 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 June 25th of each year, the director of budget and management must transfer: (i) $15 million to the oil and gas well fund; $3 million to the well-plugging 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, the lesser of the amount remaining in the fund or 17.5% of the original amount credited to the 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 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, Sub. HB 375-II proposes 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. Sub. HB 375-II 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"). The credit is equal to the severance tax paid by the royalty 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 severer. The credit may not be carried forward and is not available if the taxpayer 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-II, like the prior substitute bill, imposes an obligation on the severer 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 with respect to oil and gas extracted by any means.

Exclusion from Commercial Activity Tax (CAT)

Similar to the prior substitute bill, Sub. HB 375-II contains an exclusion from the definition of gross receipts for purposes of the commercial activity tax 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.

In addition, an amendment was added to the bill on the floor that provides a credit against the severance tax for CAT paid by C corporations. The credit equals the amount of CAT paid during a severance tax reporting period (calendar quarter), is nonrefundable, and may not be carried forward to subsequent reporting period.

113TH CONGRESS
2D SESSION

S. ______

To amend the Internal Revenue Code of 1986 to extend the new markets tax credit and provide designated allocations for areas impacted by a decline in manufacturing.

IN THE SENATE OF THE UNITED STATES

Mr. BROWN introduced the following bill; which was read twice and referred to the Committee on ______________

A BILL

To amend the Internal Revenue Code of 1986 to extend the new markets tax credit and provide designated allocations for areas impacted by a decline in manufacturing.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Manufacturing Communities Investment Act".

SEC. 2. EXTENSION OF NEW MARKETS TAX CREDIT WITH DESIGNATED ALLOCATIONS FOR AREAS IMPACTED BY DECLINE IN MANUFACTURING.

(a) EXTENSION OF CREDIT.—Section 45D(f)(1) of the Internal Revenue Code of 1986 is amended by striking the period at the end of subparagraph (G) and inserting ", and" and by adding at the end the following new subparagraph:

"(H) $5,000,000,000 for 2014, 2015, and 2016.".

(b) ALLOCATIONS DESIGNATED FOR AREAS IMPACTED BY DECLINE IN MANUFACTURING.—Section 45D(f) of such Code is amended by adding at the end the following new paragraph:

"(4) ALLOCATIONS FOR AREAS IMPACTED BY DECLINE IN MANUFACTURING.—The new markets tax credit limitation otherwise determined under paragraph (1) for calendar years 2014, 2015, and 2016 shall each be increased by $1,000,000,000. A qualified community development entity shall be eligible for an allocation under paragraph (2) of the increase described in the preceding sentence only if a significant mission of such entity is providing investments and services to persons in the trade or business of manufacturing products in communities which have suffered major manufacturing job losses or a major manufacturing job loss event, as designated by the Secretary. Paragraph (3) shall be applied separately with respect to the increase provided under this paragraph.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to calendar years beginning after December 31, 2013.

ROETZEL

SUTA

An Overview and Status Update of Unemployment Compensation in Ohio

Presented by:

Dan Hilson

May 16, 2014

FUTA VS. SUTA

FUTA

- **Federal Unemployment Tax Act (1939)**
  - Federal law that imposes a federal employer tax to assist in funding state workforce agencies
  - Filed with the IRS

- **Through June 30, 2011, the FUTA imposed a tax of 6.2%**
  - Permanent rate of 6.0% and temporary rate of 0.2%, passed by Congress in 1976
  - Futa imposed a 6.2% tax on first $7,000 of gross earnings per year, per employee.

- **After July 1, 2011, the rate decreased to 6.0%.**
  - Law provides a credit against federal liability of up to 5.4% for employers who pay state taxes on time under an approved state UI (Unemployment Insurance) program, effectively lowering the FUTA tax to 0.6%.

DELINQUENT STATE TRUST FUND BALANCES

- **Federal government requires a state with a negative fund balance to increase the FUTA rate by 3/10th or 0.3 percent each year that the state fund has a negative balance.**
- **Employers operating in Ohio have seen their FUTA rate increase in the last three years from 0.6 to 1.5 in 2013.**
- **It will increase to 1.8% in 2014.**

Title XII Advance Activities Schedule

As of: October 16, 2013

State	Outstanding Advance Balance	Advance Authorization Current Month	Interest for FY2014
Arizona	0	60,000,000.00	0
Arkansas	157,661,538.71	0	178,066.68
California	9,416,564,145.28	600,000,000.00	10,490,320.66
Connecticut	573,722,119.43	0	647,975.51
Delaware	71,464,685.87	0	80,713.95
Georgia	296,329,684.02	0	334,681.85
Indiana	1,367,663,367.56	50,000,000.00	1,534,718.80
Kentucky	622,414,590.73	45,000,000.00	699,344.67
Missouri	322,163,410.75	0	363,859.08
Nevada	531,852,957.19	50,000,000.00	595,059.89
New Jersey	188,029,065.65	220,000,000.00	165,471.48
New York	2,891,064,770.85	300,000,000.00	3,222,841.54
North Carolina	2,088,948,929.01	150,000,000.00	2,279,662.96
Ohio	1,553,203,254.29	0	1,754,225.00
Rhode Island	162,966,680.78	18,000,000.00	184,058.46
South Carolina	456,528,966.84	0	563,262.35
Virgin Islands	78,405,572.54	5,000,000.00	87,988.42
Wisconsin	422,422,333.08	200,000,000.00	466,451.97
Totals	21,201,406,072.58	1,698,000,000.00	23,648,703.27

FUTA VS. SUTA

SUTA

- **State Unemployment Tax Authority**
  - State unemployment tax (form of payroll tax)
  - Part of the nation's unemployment insurance program
  - Paid by an employer and is added to a fund that can be used by a qualifying employee for a set time if they become unemployed (26 weeks unless extended. During the recession, the benefits were extended to 99 weeks).
  - Each state has different requirements, but all require employers to pay a SUTA tax based upon some formula of payroll and experience for all employees, unless exempt.

- **Paid by employer, deposited in state trust fund, used by qualifying employees if they become unemployed**

OVERVIEW OF SUTA IN OHIO

- Current taxable wage base: SUTA tax is paid on the first $9,000 in reportable wages
- Current minimum tax rate based upon experience: 0.3%
- Current maximum tax rate based upon experience: 8.4%
- New Employer starts at 2.7%
- Average Employer rate is 2.9%

OHIO'S UNEMPLOYMENT TAX

- **Trust Fund has a negative balance**
- **The goal is to reduce the negative balance by increasing SUTA revenues.**
  - **What are the options?**
  - **Should Ohio raise its base wage from, $9,000 in wages?**
  - **Should Ohio add surtaxes?**
  - **Should Ohio raise the experience rate structure?**
    - Current rate ranges 0.3% to 8.4%

OHIO'S UNEMPLOYMENT TAX

- **Arguably raising rates or the wage base can actually lower revenue.**
- **States with the best tax systems are actually the most competitive at attracting new businesses.**
  - New businesses increase employment which generates more revenue

Table 1
2014 State Business Tax Climate Index Ranks and Component Tax Ranks

State	Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Unemployment Insurance Tax Rank	Property Tax Rank
Alabama	21	19	22	37	15	10
Alaska	4	28	1	5	29	25
Arizona	22	26	18	49	1	6
Arkansas	35	39	26	42	11	19
California	48	31	50	41	16	14
Colorado	19	21	15	44	28	22
Connecticut	42	35	33	32	23	49
Delaware	13	50	28	2	2	13
Florida	5	13	1	18	6	16
Georgia	32	8	41	12	24	31
Hawaii	30	4	35	16	38	12
Idaho	18	18	23	23	47	3
Illinois	31	47	11	33	43	44
Indiana	10	24	10	11	13	5
Iowa	40	49	32	24	36	38
Kansas	20	37	17	31	12	29
Kentucky	27	27	29	10	48	17
Louisiana	33	17	25	50	4	24
Maine	29	45	21	9	33	40
Maryland	41	15	46	8	40	41
Massachusetts	25	34	13	17	49	47
Michigan	14	9	14	7	44	28
Minnesota	47	44	47	35	41	33
Mississippi	17	11	20	28	5	32
Missouri	16	7	27	26	9	7
Montana	7	16	19	3	21	8
Nebraska	34	36	30	29	8	39
Nevada	3	1	1	40	42	9
New Hampshire	8	48	9	1	46	42
New Jersey	49	41	48	46	32	50
New Mexico	38	40	34	45	17	1
New York	50	25	49	38	45	45
North Carolina	44	29	42	47	7	30
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ohio	39	23	44	30	10	20
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oregon	12	32	31	4	34	15
Pennsylvania	24	46	16	19	39	43
Rhode Island	46	43	36	27	50	46
South Carolina	37	10	40	22	30	21
South Dakota	2	1	1	34	37	18
Tennessee	15	14	8	43	27	37
Texas	11	38	7	36	14	35
Utah	9	5	12	20	18	4
Vermont	45	42	45	13	22	48
Virginia	26	6	37	6	35	26
Washington	6	30	1	48	20	23
West Virginia	23	20	24	25	26	27
Wisconsin	43	33	43	15	25	36
Wyoming	1	1	1	14	31	34
Dist. of Columbia	*44*	*35*	*34*	*41*	*26*	*44*

HISTORICAL PERSPECTIVE

- **Ohio suffered from the global recession in the early 1980s, the last major recession before 2007.**
  - As a result, Ohio's trust fund had a negative balance from 1983-1992
  - Ohio utilized several strategies beginning in 1990
    - Lowered minimum tax rate from 0.5 to 0.3
    - Raised maximum tax rate from 5.5 to 8.4
    - Moved taxable wage rate from $7,000, to $8,000, to $9,000 over 4 years
    - Eliminated mutualized account write-offs
- **Ohio's trust fund returned to a negative balance in 2009.**
  - Trust fund had a peak negative balance of 2.6 billion, it is currently at 1.5 billion

HOW DOES OHIO TAKE ACTION?

- **The Unemployment Compensation Advisory Council is a 12-member panel of business, labor, and legislative leaders tasked with overseeing Ohio's unemployment trust fund – How is it doing?**
  - Hasn't met in over three years
  - No valid members. Appointments are supposed to be made by the Governor and House and Senate Leadership
  - Has not submitted recommendations to the General Assembly since 2006
  - Ohio's trust fund has a negative balance of 1.5 billion
  - Interest on the 2014 debt is 1.75 million annually
  - What happens when interest rates increase?

WHAT OTHER STATES ARE DOING

- **Some states are:**
    1. Using general funds or issue bonds to pay down the debt (results in employers paying less)
    2. Shoring up unemployment funds by raising taxes on employers
    3. Cutting benefits by reducing the amounts paid or length of time benefits are paid
    4. Structuring their systems to trigger an increase in employer taxes when their trust fund reaches a certain level
    5. Enacted special assessments or surtaxes to repay loans

- **Vermont capped maximum weekly benefit at $425 and made workers wait a week with no income before making benefits available**

- **Texas, Pennsylvania, and Michigan sold bonds to pay off loans**

PROJECTION FOR THE FUTURE

- Without <u>state changes</u>, of which the state has none authorized, it will take Ohio **<u>4-6</u>** more years before the trust fund has a positive balance.

- There will continue to be a 0.3% increase in the FUTA tax rate until Ohio’s fund balance is no longer negative.

POSSIBLE FIXES

1. **Explore some options used in other states**
   - Issue bonds to lock in lower interest rates
   - Cut benefits
   - Cap the number of weekly benefits
   - Raise employer taxes
   - Raise the wage base

2. **Reconvene Unemployment Compensation Advisory Council**

3. **Look at solutions from past:**
   - Raise Taxable Wage Base (above $9,000)
   - Increase Minimum Tax Rate (0.3%)
   - Extend Maximum Tax Rate (8.4%)
   - Enact a surtax

4. **Introduction of Legislation**
   - House Bill 329 - 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.

QUESTIONS?

ROETZEL

FOCUSED ON WHAT MATTERS TO YOU

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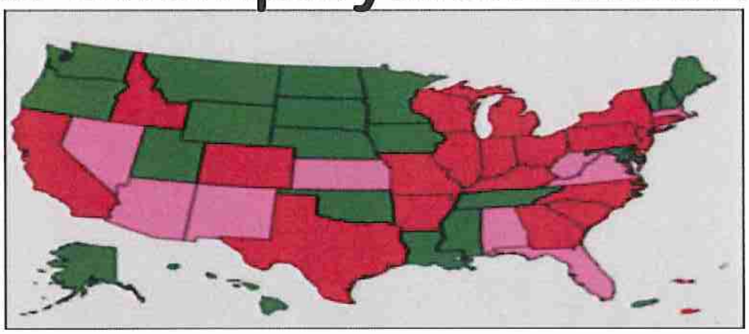
State	Outstanding Advance Balance	Authorization Current Month	Gross Advance Draws Current Month	Interest for FY2014
Alabama	0.00	0.00	0.00	0.00
Arizona	0.00	40,000,000.00	851,100.00	28,070.86
Arkansas	89,765,161.49	0.00	0.00	1,809,791.47
California	7,412,226,813.55	650,000,000.00	124,000,000.00	144,786,266.14
Colorado	0.00	0.00	0.00	0.00
Connecticut	611,288,504.41	0.00	0.00	8,594,252.57
Delaware	62,492,640.50	0.00	0.00	1,036,429.99
Florida	0.00	0.00	0.00	0.00
Georgia	62,490,887.99	0.00	0.00	2,907,930.26
Hawaii	0.00	0.00	0.00	0.00
Idaho	0.00	0.00	0.00	0.00
Illinois	0.00	0.00	0.00	0.00
Indiana	1,055,853,948.09	50,000,000.00	8,288,811.97	20,421,924.65
Kansas	0.00	0.00	0.00	0.00
Kentucky	411,719,619.97	40,000,000.00	7,853,147.58	9,539,008.55
Maryland	0.00	0.00	0.00	0.00
Massachusetts	0.00	250,000,000.00	0.00	0.00
Michigan	0.00	0.00	0.00	0.00
Minnesota	0.00	0.00	0.00	0.00
Missouri	256,871,421.52	15,000,000.00	0.00	4,590,285.91
Nevada	0.00	0.00	0.00	1,424,740.93
New Hampshire	0.00	0.00	0.00	0.00
New Jersey	0.00	50,000,000.00	2,126,000.00	2,815,516.43
New York	1,517,751,144.71	300,000,000.00	0.00	45,498,739.04
North Carolina	1,101,025,038.72	75,000,000.00	7,458,043.18	27,187,760.36
Ohio	1,613,152,580.93	25,000,000.00	0.00	23,576,615.39
Pennsylvania	434,510,981.58	100,000,000.00	37,674,372.20	1,121,837.36
Rhode Island	40,985,852.41	17,000,000.00	2,770,793.00	1,796,627.72
South Carolina	396,512,366.54	0.00	0.00	6,779,813.84
South Dakota	0.00	0.00	0.00	0.00
Tennessee	0.00	0.00	0.00	0.00
Texas	0.00	0.00	0.00	0.00
Vermont	0.00	0.00	0.00	0.00
Virginia	0.00	0.00	0.00	0.00
Virgin Islands	84,924,581.44	2,000,000.00	0.00	1,230,416.18
Wisconsin	1,847,576.07	200,000,000.00	8,503,236.31	5,917,641.95
Totals	**15,153,419,119.92**	**1,814,000,000.00**	**199,525,504.24**	**311,063,669.60**

U.S. Department of Labor
Office of Unemployment Insurance
Division of Fiscal and Actuarial Services

May 2014

2014
State Unemployment Insurance



Trust Fund Solvency Report

View this report online at:
http://ows.doleta.gov/unemploy/finance.asp

Solvency of State Unemployment Insurance (UI) Trust Funds

Introduction

The publication of the yearly Solvency Report provides an opportunity for interested users to evaluate and compare the solvency level of each state's UI trust fund.

UI taxes paid primarily by employers on the wages paid to employees flow into state UI accounts maintained at the U.S. Treasury. These same accounts are the source of benefit payments to eligible claimants in the regular UI program.

In the 2007-09 recession and its aftermath, 36 states were depleted their UI funds and were forced to borrow from the Federal government to continue paying benefits. Much of the borrowing was due to the fact that many states did not have adequate UI trust funds going into the recession. Now these states are in a position of having to find ways to repay the Federal loans as well as to build up their trust funds before the next recession.

Currently, state UI programs have approximately $20 billion in outstanding Federal loans (and approximately an additional $10 billion in outstanding private borrowing) from 23 states. In the next few years, states will have to repay their loans and rebuild their trust funds.

This report is constructed to provide the information needed for analyzing trust fund solvency. The seventeen variables in this report are divided into three sections. The first eleven variables provide the status of the State Trust fund level, the next two items cover the state's Solvency Measures, followed by the Calculations of Federal Borrowing Statutes and FUTA Credit Reductions. An explanation and derivation of each item can be found in the report glossary.

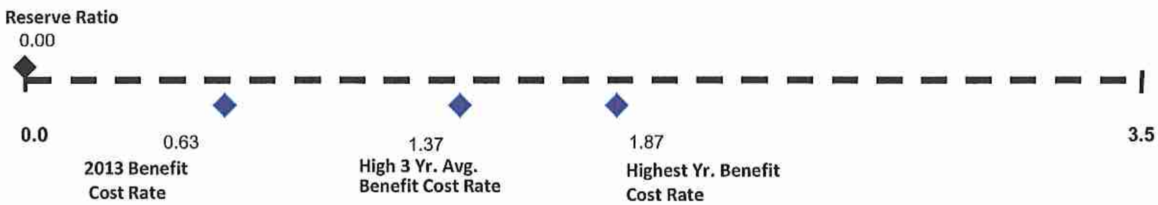
OHIO - 2014

State Trust Fund Status

1) UI Trust Fund Balance 3/31/2014:	$7,880,823	2) Interest Earned for 2013:	$0.00
Balance 12/31/2013:	$51,016,111		
3) Outstanding Title XII Advance 3/31/2014:	$1,589,750,581	4) Total Title XII Advances[1]:	$3,605,488,574
5) Title XII Interest Owed for 2013:	$44,495,535	6) Max. Amount of Outstanding Advances:	$2,611,387,131
7) Title XII Advances Per Cov. Employee:	$407.03	8) Date of Maximum Outstanding Amount:	4/30/2011
9) Title XII Advances as % of Cov. Wages:	0.93	10) Private Borrowing Instrument Issued:	N/A
		11) For Amount of :	$0

State Trust Fund Solvency

12) Trust Fund Compared to Benefit Costs



Calculations of Federal Borrowing Statutes and FUTA Credit Reductions

Eligibility for Interest Free Borrowing in 2014

14)	Last year in which State achieved a 0.5 Avg. High Cost Multiple[3]:	2001
15)	Lowest Percentage the Avg. Tax rate is of the Previous 5 yr. Ben Cost Rate (in the last 5 years)	N/A
16)	Lowest Percentage the Average Tax Rate is of the Previous Avg. Year's Tax Rate (in the last 5 years)	N/A

FUTA Tax Rate

17)	Credit Reduction Due to Outstanding Loans	2.7% Add-on	BCR Add-on	Total Credit Reduction	FUTA Tax Rate[5]
2013	0.9%	0.0%	0.0%	0.90%	1.5%
Potential 2014[4]	1.2%	0.0%	1.4%	2.60%	3.2%

1 Total Advances from 12/31/2007 to 3/31/2014
2 Average High Cost Multiple (AHCM) value is as of 1/1/2014.
3 Must occur in the last 5 years to be eligible for an interest free loan
4 Amounts estimated as of 3/31/2014. Credit reductions apply only to states with outstanding loans as of November 10, 2014.
5 Represents the difference between total FUTA credit (with any reductions) and the FUTA tax rate of 6.0%

Summary of State Trust Fund Status 2014

Table 1

STATE	Trust Fund Balance as of 3/31/2014	Outstanding Title XII Advance as of 3/31/2014	Reserve Ratio[1]	Average High Cost Multiple[1]
ALASKA	336,628,633	0	2.92	1.29
ALABAMA	200,948,858	0	0.38	0.41
ARKANSAS	72,243,007	89,765,161	0.00	0.00
ARIZONA	5,103,112	0	0.03	0.03
CALIFORNIA	31,923,665	9,909,310,760	0.00	0.00
COLORADO	481,669,819	0	0.58	0.55
CONNECTICUT	35,865,191	575,855,561	0.00	0.00
DIST. OF COLUMBIA	273,446,493	0	0.93	0.92
DELAWARE	13,070,054	62,492,641	0.00	0.00
FLORIDA	794,496,318	0	0.31	0.31
GEORGIA	14,386,797	56,785,888	0.00	0.00
HAWAII	323,474,018	0	1.70	0.87
IOWA	778,648,762	0	1.89	1.29
IDAHO	414,047,163	0	2.37	1.30
ILLINOIS	581,214,898	0	0.43	0.28
INDIANA	4,797,060	1,358,315,247	0.00	0.00
KANSAS	60,926,241	0	0.21	0.19
KENTUCKY	106	647,209,979	0.00	0.00
LOUISIANA	803,774,710	0	1.27	1.29
MASSACHUSETTS	401,738,462	0	0.45	0.24
MARYLAND	774,053,425	0	0.92	0.76
MAINE	264,222,772	0	1.89	0.99
MICHIGAN	1,333,514,335	0	1.08	0.50
MINNESOTA	1,020,618,806	0	1.12	0.81
MISSOURI	8,108,194	247,691,148	0.00	0.00
MISSISSIPPI	503,448,954	0	1.75	1.65
MONTANA	196,366,048	0	1.66	1.13
NORTH CAROLINA	221,840,075	1,674,699,203	0.00	0.00
NORTH DAKOTA	143,026,290	0	1.11	1.15
NEBRASKA	339,536,114	0	1.33	1.77
NEW HAMPSHIRE	228,114,288	0	1.06	1.04
NEW JERSEY	32,763,121	409,040,824	0.00	0.00
NEW MEXICO	42,886,535	0	0.25	0.17
NEVADA	69,146,010	0	0.24	0.11
NEW YORK	11,988,682	3,233,447,412	0.00	0.00
OHIO	7,880,823	1,589,750,581	0.00	0.00
OKLAHOMA	1,083,803,234	0	2.04	2.06
OREGON	1,844,742,691	0	3.36	1.35
PENNSYLVANIA	51,291,494	217,283,927	0.13	0.06
PUERTO RICO	362,459,862	0	2.25	0.84
RHODE ISLAND	119,274	125,162,520	0.00	0.00
SOUTH CAROLINA	168,350,743	456,512,367	0.00	0.00
SOUTH DAKOTA	59,405,800	0	0.63	1.16
TENNESSEE	729,622,030	0	0.82	0.80
TEXAS	1,113,217,437	0	0.31	0.36
UTAH	658,078,534	0	1.67	1.47
VIRGINIA	138,830,592	0	0.15	0.21
VIRGIN ISLANDS	13,641,825	84,924,581	0.00	0.00
VERMONT	73,856,733	0	1.02	0.51
WASHINGTON	2,943,354,462	0	2.61	1.20
WISCONSIN	4,228,104	459,850,124	0.00	0.00
WEST VIRGINIA	55,312,322	0	0.50	0.32
WYOMING	287,556,570	0	3.11	2.13

[1] Estimated as of 12/31/2013

Summary of State Eligibility For Interest Free Advance 2014

Table 2

STATE	Interest Free Loan Eligibility for 2014	Last Year State Achieved 0.5 AHCM	Lowest Percentage Avg. Tax Rate is of the 5 yr. Ben Cost Rate	Lowest Percentage Avg. Tax Rate is of the Previous Yr. Tax Rate
ALASKA	Eligible	2013	98%	87%
ALABAMA	Ineligible	2007	84%	80%
ARKANSAS	Ineligible	2000	94%	100%
ARIZONA	Ineligible	2008	65%	92%
CALIFORNIA	Ineligible	2002	69%	96%
COLORADO	Eligible	2013	92%	95%
CONNECTICUT	Ineligible	2007	92%	104%
DIST. OF COLUMBIA	Eligible	2013	79%	99%
DELAWARE	Ineligible	2008	69%	103%
FLORIDA	Ineligible	2008	74%	109%
GEORGIA	Ineligible	2008	76%	105%
HAWAII	Eligible	2013	35%	95%
IOWA	Eligible	2013	99%	88%
IDAHO	Eligible	2013	106%	93%
ILLINOIS	Ineligible	1999	75%	85%
INDIANA	Ineligible	2008	57%	97%
KANSAS	Ineligible	2008	94%	98%
KENTUCKY	Ineligible	2002	71%	99%
LOUISIANA	Eligible	2013	47%	92%
MASSACHUSETTS	Ineligible	2007	93%	96%
MARYLAND	Eligible	2013	82%	92%
MAINE	Eligible	2013	74%	100%
MICHIGAN	Ineligible	2008	70%	99%
MINNESOTA	Eligible	2013	92%	99%
MISSOURI	Ineligible	2007	85%	95%
MISSISSIPPI	Eligible	2013	50%	85%
MONTANA	Eligible	2013	92%	98%
NORTH CAROLINA	Ineligible	2000	82%	96%
NORTH DAKOTA	Eligible	2013	96%	92%
NEBRASKA	Eligible	2013	83%	64%
NEW HAMPSHIRE	Eligible	2013	109%	98%
NEW JERSEY	Ineligible	2003	81%	104%
NEW MEXICO	Ineligible	2010	73%	95%
NEVADA	Ineligible	2008	61%	97%
NEW YORK	Ineligible	1990	84%	98%
OHIO	Ineligible	2001	75%	88%
OKLAHOMA	Eligible	2013	66%	92%
OREGON	Eligible	2013	98%	99%
PENNSYLVANIA	Ineligible	2001	77%	97%
PUERTO RICO	Eligible	2013	73%	96%
RHODE ISLAND	Ineligible	2003	75%	102%
SOUTH CAROLINA	Ineligible	2008	55%	89%
SOUTH DAKOTA	Eligible	2013	101%	66%
TENNESSEE	Eligible	2013	95%	91%
TEXAS	Ineligible	1991	77%	98%
UTAH	Eligible	2013	75%	99%
VIRGINIA	Ineligible	2008	77%	101%
VIRGIN ISLANDS	Ineligible	2007	12%	95%
VERMONT	Eligible	2013	73%	110%
WASHINGTON	Eligible	2013	70%	78%
WISCONSIN	Ineligible	2003	78%	100%
WEST VIRGINIA	Ineligible	2002	92%	99%
WYOMING	Eligible	2013	119%	100%

Summary of State FUTA Tax Rate Calculation 2014

Table 3

STATE	FUTA Credit Reduction: Basic Reduction	Potential 2.7 Add on	Estimated Potential BCR Add-on	Total Credit Reduction	2014 Final FUTA Tax Rate
ALASKA	-	-	-	-	0.6%
ALABAMA	-	-	-	-	0.6%
ARKANSAS	1.2%	-	0.5%	1.7%	2.3%
ARIZONA	-	-	-	-	0.6%
CALIFORNIA	1.2%	-	1.5%	2.7%	3.3%
COLORADO	-	-	-	-	0.6%
CONNECTICUT	1.2%	-	0.5%	1.7%	2.3%
DIST. OF COLUMBIA	-	-	-	-	0.6%
DELAWARE	0.9%	-	-	0.9%	1.5%
FLORIDA	-	-	-	-	0.6%
GEORGIA	1.2%	-	0.6%	1.8%	2.4%
HAWAII	-	-	-	-	0.6%
IOWA	-	-	-	-	0.6%
IDAHO	-	-	-	-	0.6%
ILLINOIS	-	-	-	-	0.6%
INDIANA	1.5%	-	1.2%	2.7%	3.3%
KANSAS	-	-	-	-	0.6%
KENTUCKY	1.2%	-	1.0%	2.2%	2.8%
LOUISIANA	-	-	-	-	0.6%
MASSACHUSETTS	-	-	-	-	0.6%
MARYLAND	-	-	-	-	0.6%
MAINE	-	-	-	-	0.6%
MICHIGAN	-	-	-	-	0.6%
MINNESOTA	-	-	-	-	0.6%
MISSOURI	1.2%	-	0.4%	1.6%	2.2%
MISSISSIPPI	-	-	-	-	0.6%
MONTANA	-	-	-	-	0.6%
NORTH CAROLINA	1.2%	-	0.5%	1.7%	2.3%
NORTH DAKOTA	-	-	-	-	0.6%
NEBRASKA	-	-	-	-	0.6%
NEW HAMPSHIRE	-	-	-	-	0.6%
NEW JERSEY	1.2%	-	-	1.2%	1.8%
NEW MEXICO	-	-	-	-	0.6%
NEVADA	-	-	-	-	0.6%
NEW YORK	1.2%	-	0.7%	1.9%	2.5%
OHIO	1.2%	-	1.4%	2.6%	3.2%
OKLAHOMA	-	-	-	-	0.6%
OREGON	-	-	-	-	0.6%
PENNSYLVANIA	-	-	-	-	0.6%
PUERTO RICO	-	-	-	-	0.6%
RHODE ISLAND	1.2%	-	1.0%	2.2%	2.8%
SOUTH CAROLINA	1.5%	-	0.5%	2.0%	2.6%
SOUTH DAKOTA	-	-	-	-	0.6%
TENNESSEE	-	-	-	-	0.6%
TEXAS	-	-	-	-	0.6%
UTAH	-	-	-	-	0.6%
VIRGINIA	-	-	-	-	0.6%
VIRGIN ISLANDS	1.2%	-	1.6%	2.8%	3.4%
VERMONT	-	-	-	-	0.6%
WASHINGTON	-	-	-	-	0.6%
WISCONSIN	1.2%	-	0.1%	1.3%	1.9%
WEST VIRGINIA	-	-	-	-	0.6%
WYOMING	-	-	-	-	0.6%

State Unemployment Insurance Solvency Report

Data Definitions

Following are the definitions used for all of the items reported on the State Unemployment Insurance Solvency Report.

1) UI Trust Fund Balance:	**The balance in the individual state account in the Unemployment Trust Fund as of January 1, and as of March 31 of the report year. (Source: U.S. Department of Treasury Bureau of Public Debt).**
2) Interest Earned:	**The total amount of interest earned by the Unemployment Trust Fund account in the fiscal year preceding the report year. (Source: U.S. Department of Treasury Bureau of Public Debt)**
3) Outstanding Title XII Advance:	**Balance of outstanding advances, as of March 31 of the report year, acquired by the state under Title XII of the Social Security Act. (Source: U.S. Department of Treasury Bureau of Public Debt)**
4) Total Title XII Advances:	**Total amount of advances from 12/31/2007 (beginning of the last recession) to March 31 of the report year. (Source: Unpublished U.S. Department of Treasury reports)**
5) Title XII Interest Owed:	**The amount of interest incurred on Title XII advances in the fiscal year preceding the report year. (Source: U.S. Department of Treasury Bureau of Public Debt)**
6) Maximum Amount of Outstanding Advances:	**The highest amount of month-ending outstanding Title XII advances reached from 12/31/2007 to the report date. ((Source: Unpublished U.S. Department of Treasury reports)**
7) Title XII Advances Per Covered Employee:	**Outstanding Title XII advances as of March 31 of the report year divided by estimated covered employment for the previous calendar year.**
8) Date of Maximum Outstanding Amount:	**The date of the maximum outstanding Title XII advances (Item 6) since the beginning of the last recession.**
9) Title XII Advances as a Percent of Covered Wages:	**Outstanding Title XII advances as of March 31 of the report year, divided by estimated total wages for covered employment in the last calendar year, multiplied by 100. (Note: Total wages for the prior calendar year consist of actual data for the first three quarters and estimated wages for the fourth quarter)**

10) Private Borrowing Instrument Issued:

The date when a private borrowing financial instrument was issued.

11) Amount of Private Borrowing Instrument:

The total value of the private borrowing financial instrument at the time of issue.

12) Trust Fund Compared to State Benefit Costs:

This chart provides a visual comparison between the state's current reserve level, measured by the Reserve Ratio (the state trust fund as of January 1 as a percentage of estimated total wages in the past calendar year), and the state's historic benefit costs (measured by benefit cost rate). Benefit cost rate of any given year is defined as total benefits paid for the year (the sum of regular UI benefits and the state share of the extended benefits, but excluding reimbursable benefits) as a percent of total wages in taxable employment.

Benefit Cost Rate in the previous calendar year uses total benefits for that period. The high 3 year average Benefit cost rate uses the benefits in the three highest years in the last twenty years (or a period including three recessions, if longer). The highest year benefit cost rate uses the highest ratio of benefits paid to wages in the last twenty years (or a period including three recessions, if longer).

13) Solvency Level Using Average High Cost Multiple:

The black diamond in this chart represents the Average High Cost Multiple, which is measured as the Reserve Ratio (or Trust Fund as % of Total Wages) at the end of the calendar year immediately preceding the report year, divided by the Average High Cost Rate. Average High Cost Rate is the average of the three highest calendar year benefit cost rates in the last 20 years (or a period including three recessions, if longer).

14) Last Year in which State Achieved a 0.5 Average High Cost Multiple

The interest free loan eligibility criteria implemented for the first time this year requires states achieve a solvency target within the previous 5 years. The solvency target for 2014 is a 0.5 Average High Cost Multiple. This entry provides the last year in which the state achieved this solvency target. If the year is dated more than 5 years ago, the state is not eligible for an interest free loan for this year.

15) Lowest Percentage the Average Tax rate is of the Previous 5 year Benefit Cost Rate (in the last 5 years):

The interest free loan eligibility criteria maintains that for each year between the year in which the solvency target was last met and the year of loan, the state's average tax rate on total wages as percentage of the state's five year benefit-cost rate must be at least 75%. This entry provides the lowest of such percentage (N/A if the solvency target was last met

more than 5 years ago). If this value is N/A or below 75%, the state is not eligible for an interest free loan.

16) Lowest Percentage the Average Tax Rate is of the Previous Average Year's Tax Rate (in the last 5 years):

The interest free loan eligibility criteria also maintains that for each year between the year in which the solvency target was last met and the year of loan, the state's average tax rate on total wages as percentage of the state's previous year's average tax rate must be at least 80%. This entry provides the lowest of such percentage (N/A if the solvency target was last met more than 5 years ago). If this value is N/A or below 80%, the state is not eligible for an interest free loan.

17) FUTA Tax Rate

The Federal Unemployment Tax Act of the Internal Revenue Code stipulates that the full FUTA tax rate is 6.0%, levied on the first $7000 of an employee's earnings. States in full compliance with federal requirements will receive a credit of 5.4% against the FUTA tax.

17a) FUTA Credit Reduction

When a state has an outstanding loan balance on January 1st for two or more consecutive years, and the full amount of the loan is not repaid by November 10 of the second year, the FUTA credit will be reduced until the loan is repaid. The basic reduction schedule consists of a 0.3% annual increment in credit loss.

17b) 2.7 Add-on Credit Reduction:

If a state has outstanding loan balance on January 1st for three or more consecutive years, and the full amount of the loan is not repaid by November 10 of the tax year, then from the third year on, a 2.7% add-on may apply if the state's average tax rate on total wages is below a threshold defined by 2.7% x 7,000/ (U.S. Avg. Annual Wage).

17c) Benefit Cost Rate Add-on Credit Reduction:

If a state has an outstanding loan balance on January 1st for five or more consecutive years, and the full amount of the loan is not repaid by November 10 of the tax year, then from the fifth year on, a Benefit Cost Rate (BCR) add-on may apply if the state's average tax rate on taxable wages is lower than its 5 year benefit cost rate (or 2.7%, whichever is higher). An estimate of the BCR add-on was derived by taking the average of the previous five years of total benefits paid, ending on the second prior year, divided by the total taxable wages in the previous calendar year. From this number, or 2.7% (whichever is higher), is subtracted the average tax rate on taxable wages (total contributions in the past year divided by total taxable wages as defined above). The difference is the BCR add-on amount for the specified year. For this calculation the total

taxable wages in the previous year is an estimated amount.

17d) Total Credit Reduction

The sum of the basic credit reduction amount and the add-on credit reduction amount.

17e) Final FUTA Tax Rate

The final FUTA credit a state receives is the full credit amount (5.4%) subtracted by the total credit reduction. The difference between the full FUTA tax rate (currently 6.0%) and the final credit is the actual FUTA tax rate for the state.

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: May 20, 2014
SUBJECT: Tax Policy Highlights

Overview

The General Assembly has been working non-stop since mid-January minus a quick two week spring break in order to campaign for the primary season. The House Ways and Means Committee has been very active over the last three months. The severance tax and the Governor's MBR proposals have been at the forefront of their work.

State Financial Condition

Real GDP was essentially flat in the first quarter. Forecasters are still expecting solid growth in the current quarter and remainder of the year.

Ohio employment increased by 600 jobs in March. The year-to-date increase in Ohio jobs is 14,000. The unemployment rate was just announced last Friday and Ohio was down to 5.7%

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

Tax Reform Hearings

Neither the House or the Senate who held tax study committees in the past year have released any findings from those hearings.

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.

It appears that some members of the Senate leadership team have strong concerns regarding the bill. The Senate has failed to hold any hearings on HB 5. There was some speculation it might receive hearings while the Senate debated the MBR but none have been schedule. With only a couple weeks left before summer recess action on the bill seems like a longshot.

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 has had four hearings. The last was in February. The projected savings with Medicaid expansion might have been overstated. Because of this new information bills relying on expansion money will not be passed until a true figure can be determined.

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, where it has had two hearings, the last in February.

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. The bill is scheduled for a second hearing this week, in House Ways and Means.

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 then Chairman Beck on this bill to stress our concerns. The bill's last hearing was in October 2013.

House Bill 289
House Bill 289, sponsored by Representative Kirk Schuring (R-Canton) addresses flaws in Ohio's Joint Economic Development Zone (JEDZ) law which goes beyond the original objective of supporting economic growth and development.

House Bill 289 contains the necessary provisions that resolve the unintended consequences of the JEDZ law, specifically that income tax revenues are being diverted from their intended economic development purposes unrelated to economic development, possibly in violation of due process for those paying the tax. The bill has passed the House and has several hearings in the Senate.

<u>House Bill 328</u>
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 its third hearing in late February where the committee accepted a sub bill.

<u>House Bill 336</u>
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. The bill was passed out of the House in late March and has been assigned to the Senate Finance Committee.

<u>House Bill 375</u>
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.

Two different substitute bills have been accepted by the House Ways and Means Committee. The latest version removes the CAT exclusion for C corps but includes the exclusion for pass through entities. The bill allows companies who are not excluded from the CAT to take a credit against the severance in the amount they pay in CAT. The bill also increases the severance tax rate to 2.5%. It passed this House a week ago and will begin having hearings shortly in the Senate. There is some question if there is enough support in the Senate to pass the current version of the bill. There is also a question whether the bill is supported by the Governor.

<u>House Bill 402</u>
This bill would authorize the Tax Commissioner to either apply a taxpayer's overpayment of a tax or fee to the taxpayer's future liability or issue a refund to the taxpayer with the taxpayer having to request the credit or refund. It would also require the Department of Taxation to notify taxpayers of tax or fee overpayments. The bill passed the House and had its second hearing in the Senate on May 8th.

<u>Mid-Biennium Review</u>
The Governor introduced House Bill 472 which became the mid-biennium review (MBR) bill. This bill was quickly broken up into a plethora of bills based on topics. The tax package stayed as HB 472 and the appropriations bill became HB 483.

House Bill 472 is centered around an 8.5% income tax reduction across the board phased in over three years. It will be paid by increasing the cigarette tax by $0.60 per pack over two years, increasing the severance tax rate to 2.75%, and raising the CAT from .26% to .30%. The bill had some early hearings, the OMA submitted a letter to leadership warning against the adverse economic impacts raising the CAT would create. Leadership has indicated if this package is going to be dealt with; it will wait until the fall.

House Bill 483 which contains a mix of random policy changes includes one CAT credit for historic rehabilitation for buildings. We were able to get this provision removed from the state budget but it has reappeared.

Tax News

Ohio Ranked 18th Highest Tax Burden

The Tax Foundation released its annual state and local tax burdens rankings. Ohio is ranked 18th highest in tax burden. The organization "computes this measure of tax burden by totaling the amount of state and local taxes paid by state residents to both their own and other governments and then divide these totals by each state's total income."

The foundation says Ohio ranks 30th in per capita income.

The state and local tax burden estimates are for FY 2011 using the most recent data available as of January 2014.

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

President
ERIC L. BURKLAND

The Ohio Manufacturers' Association

April 23, 2014

The Honorable Scott Oelslager
Chairman, Finance Committee
Ohio Senate
1 Capitol Square
Columbus, OH 43215

Re: H.B. 289 – Joint Economic Development Zone Law

Dear Chairman Oelslager:

It has come to our attention that Ohio's Joint Economic Development Zone (JEDZ) law is substantially flawed and does not fully meet its original objective to support economic growth and development.

House Bill 289 contains the necessary provisions that resolve the unintended consequences of the JEDZ law, specifically that income tax revenues are being diverted from their intended economic development purposes to purposes unrelated to economic development, possibly in violation of due process for those paying the tax. The Ohio Manufacturers' Association (OMA) supports House Bill 289 for the following reasons.

First, the bill sunsets the current JEDZ law at the end of 2014.

Next, the bill provides prudent guidelines for any JEDZ that might be proposed before the end of the year. Specifically, any new JEDZ must: 1) Provide an economic development plan for the zone and an implementation schedule of new or expanded services, facilities, or improvements; 2) Stipulate at least 50% of new revenue generated within the JEDZ must be used solely for expanded services, facilities, or improvements; 3) Create a joint economic development review council to evaluate the JEDZ's effectiveness and approve its economic development plan; and 4) Authorize employers or employees within a JEDZ to bring a civil action to suspend the income tax if the review council rules the JEDZ is not in compliance with its economic development plan.

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Last, House Bill 289 retains joint economic development districts (JEDDs), which *are* functioning as viable Ohio economic development tools.

These important changes to the JEDZ law will help provide Ohio's businesses confidence that their tax dollars are used for legitimate economic development that increases opportunities in their communities. The OMA urges favorable consideration of HB 289.

Thank you for considering our opinions.

Sincerely,

Robert A Brundrett

Robert Brundrett
Director, Public Policy Services
The Ohio Manufacturers' Association

Bill Proposed to Encourage Purchase or Use of Motor Vehicles Using Alternative Forms of Fuel

Mark A. Engel
Bricker & Eckler LLP

The General Assembly is considering a bill that is intended to encourage the acquisition and use of motor vehicles propelled by alternative forms of motor fuel. H.B. 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.

Compressed Natural Gas as a Motor Fuel:

R.C. Chapter 5735 imposes a tax on each gallon of motor vehicle fuel purchased or used on the public highways in Ohio. The bill would amend the Chapter to include within its scope, compressed natural gas ("CNG"), with the tax being imposed based upon prescribed gallon equivalents, depending on the manner of delivery of the CNG. In addition, the tax is phased. The tax is 7 cents per gallon for the first three years after the law becomes effective; 14 cents per gallon for the next two years; and the full rate of 28 cents per gallon after five years.

Because compressed natural gas would be taxed under the bill as motor fuel, receipts from its sale would no longer subject to the commercial activity tax ("CAT"). Instead, the receipts from its initial sale in the state would be subject to the motor fuel receipts tax imposed by R.C. Chapter 5736.

Sales Tax Exemption for Electric Plug-In Vehicles:

Proposed R.C. 5739.02(H) would provide a sales tax credit for the purchase or lease of a "qualified plug-in electric drive vehicle." The proposed credit is up to $500, but may not exceed the sales tax otherwise due on the transaction. The credit is limited to one vehicle per year for individuals, and up to 10 vehicles per year for businesses.

Credits for Alternative Fuel Vehicles

A nonrefundable credit against either the personal income tax, or the CAT, for the purchase of new alternative fuel vehicles, or for the conversion of traditional fuel vehicles into alternative fuel vehicles, is proposed. The credit is the lesser of 50% of the adjusted purchase price of the new vehicle or the cost of the conversion parts and equipment, or $5,000, $10,000 or $25,000 depending on the gross vehicle rating of the vehicle. The credit would be claimed in the year the vehicle is purchased or the conversion is accomplished, and any excess credit may be carried forward indefinitely. If the taxpayer is an equity investor in a pass-through entity that purchases or converts the motor vehicle, then the taxpayer may claim a proportionate share of the credit for income tax purposes. The credit sunsets after 5 years.

Gaseous Fuel Vehicle Conversion Program

Lastly, the bill would establish the Gaseous Fuel Vehicle Conversion Program. The purpose of the program is to promote the conversion of public and nonprofit motor vehicle fleets to cleaner fuels. Under the program the director of environmental protection may make grants to assist public entities and nonprofit organizations to convert vehicles to operate on gaseous fuel, or to purchase vehicles that operate on gaseous fuel. "Gaseous fuel" means compressed natural gas, liquefied natural gas, or liquid petroleum. The maximum grant amount is $500,000 per eligible entity.

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

President
ERIC L. BURKLAND

The Ohio Manufacturers' Association

May 12, 2014

The Honorable Jeff McClain
Chairman
Ways and Means Committee
Ohio House of Representatives
77 S. High St., 13th Floor
Columbus, OH 43215

RE: House Bill 375

Dear Chairman McClain:

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, manufacturers are the second-largest group of CAT taxpayers representing 9.8% of all taxpayers (retail trade is the largest). Manufacturers pay the largest share at 26.2% of all CAT after credits – generally one-third more than the next largest taxpayer group (retail trade). Manufacturers are concerned that new carve-outs, exemptions or credits will strain CAT proceeds and force an increase in its rate. It is only through the broad application of this tax that the rate can be kept low, thereby encouraging economic growth and equitable treatment of Ohio's business taxpayers. If the CAT base is eroded, we can expect reduced competitiveness for Ohio businesses.

The most recent version of H.B. 375 excludes receipts from the 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.

Excluding this industry from the CAT tax base narrows the base, reduces general revenue funds, and increases pressures to raise the rate.

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The OMA appreciates the General Assembly's efforts to modernize the state's severance tax. As the bill moves forward, please consider the principles that make the CAT a competitive business advantage for Ohio: the CAT's broad base and low rate.

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

Sincerely,

Robert A Brundrett

Robert Brundrett
Director, Public Policy Services
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enclosure Commercial Activity Tax Impact

The Ohio Manufacturers' ASSOCIATION

Commercial Activity Tax Impact

The Commercial Activity Tax (CAT), which took effect on July 1, 2005, is an annual tax imposed on the privilege of doing business in Ohio and is measured by gross receipts from business activities in the state. The CAT applies to business entities with taxable gross receipts of more than $150,000 per calendar year, and is levied on a tiered basis:

Taxable Gross Receipts	CAT
$150,000 - $1 million	$150 minimum tax
$1 million - $2 million	$800 plus 0.26% of gross receipts greater than $1 million
$2 million - $4 million	$2,100 plus 0.26% of gross receipts greater than $1 million
$4 million or more	$2,600 plus 0.26% of gross receipts greater than $1 million

Impact on Manufacturers

According to Ohio Department of Taxation *Fiscal Year 2013 Commercial Activity Tax Returns* data, manufacturers are the second-largest group of CAT taxpayers, **representing 9.8% of all taxpayers** (retail trade is the largest). And yet . . .

- In terms of **CAT revenues** based only on the 0.26% CAT rate for gross receipts in excess of $1 million, **manufacturers pay 28.1% of the state's total** – far more than any other group. If the CAT rate is increased from 0.26% to 0.30%, as proposed by the governor in his 2014 mid-biennium review, manufacturers as a group will be required to pay roughly **$69,430,000 in additional CAT payments per year, which represents a 14.7% tax increase.** That would be in addition to the increase in the minimum tax that was enacted as part of the 2014-2015 state budget bill.

- In terms of **total CAT revenues** paid, including the minimum tax, manufacturers still pay the most as a group – **27.8% of all CAT** before credits and **26.2% of all CAT** after credits – generally one-third more than the next largest taxpayer group (retail trade).

See next page for the financial impact of CAT exclusions, deductions and credits.

Foregone Revenue from CAT Exclusions, Deductions and Credits

Below are estimates of revenue foregone in FY 2015 by the state General Revenue Fund from various CAT exclusions, deductions and credits.[1] Dollar amounts are millions.

Exclusion of first $1 million of taxable gross receipts	$136.6 [2]
Qualified distribution center receipts exclusion	$89.7
Job creation credit	$40.7
State and federal fuel excise tax exclusion	$32.2
Job retention tax credit	$13.2
Credit for increased qualified research and development expenses	$11.1
Agricultural receipts	$11.0 [3]
Casino receipts in excess of "gross casino revenue"	>$10.0 [4]
Exclusion for exchanges of petroleum not involving monetary compensation	$8.5
State and federal cigarette tax exclusion	$6.6
Credit for net operating loss carry forwards and other deferred tax assets	$5.5
Professional employer organization exclusion	$2.7
State and federal alcoholic beverage excise tax exclusion	$2.0
Motor vehicle transfer exclusion	$1.9
Exclusion of real estate brokerage gross receipts not retained	$1.5
Research and development loan program credit	<$1.0 [5]
Exemption for pre-1972 trusts	<$1.0
Anti-neoplastic drug exclusion	<$1.0
Horse racing taxes and purse exclusion	<$1.0
Receipts from sale of uranium from qualifying uranium enrichment zone	<$1.0
Exclusion of certain services to financial institutions	<$1.0
Providing public services exclusion	No Estimate Available
Petroleum receipts [6]	No Estimate Available
Motion picture credit	No Estimate Available
Estimated Total Foregone Revenues	**More than $373.2 million**

NOTE: Actual total foregone revenues will be higher than estimated total forgone revenues, which reflect indefinite revenues for casino receipts and undetermined revenues for the public services exclusion, petroleum receipts and motion picture credit.

[1] Unless otherwise noted, the source for the data listed above is the Ohio Department of Taxation Tax Expenditure Report (Fiscal Years 2014-2015).
[2] Ohio Legislative Service Commission
[3] Ohio Legislative Service Commission
[4] Ohio Legislative Service Commission estimates foregone revenue from casino receipts in excess of "gross casino revenue" will be "tens of millions of dollars."
[5] The Ohio Department of Taxation Tax Expenditure Report provides only general "less than $1 million" estimates for six items in this list (rather than precise estimates as provided for the other items). For this reason, we have chosen not to include any foregone revenue for the six items with estimated foregone revenues of less than $1 million each.
[6] Motor vehicle fuel dealers pay a one-time tax of 0.65% on their sales of petroleum products.

Ohio Legislative Service Commission

Bill Analysis

Mackenzie Damon

Sub. H.B. 472

130th General Assembly
(LSC 130 2288)*

Rep. McClain (By Request)

BILL SUMMARY

Commercial activity tax

- Increases the rate of the commercial activity tax from 0.26% to 0.30% of taxable gross receipts in excess of $1 million per year, beginning July 1, 2014.

Income tax

- Reduces income tax rates for all individuals, estates, and trusts and across all income brackets by a total of 8.5% over the next two years.

- Increases the personal exemption amounts available to income taxpayers whose Ohio adjusted gross income is $80,000 or less, from $1,700 to either $2,200 or $2,700, depending on the taxpayer's income.

- Increases the Ohio earned income tax credit from 5% to 15% of a taxpayer's federal credit, subject to existing limitations on the maximum amount of credit allowed.

Cigarette and other tobacco product taxes

- Increases the rate of the cigarette excise taxes from $1.25 to $1.55 per pack from July 1, 2014, through June 30, 2015, and to $1.85 thereafter.

* An analysis of the As Introduced version of the bill was not prepared. This analysis addresses only provisions in the first substitute version, LSC 130 2288. For analyses of other provisions of the As Introduced version, see the respective analyses for House Bills 483, 484, 485, 486, 487, 488, 489, 490, 491, 492, and 493.

- Increases the rate of the tobacco product excise tax from 17% of the wholesale price (37% for little cigars) to 41% from July 1, 2014, through June 30, 2015, and to 49% thereafter.

- Subjects nicotine products used with electronic cigarettes to the existing excise tax on "other tobacco products" beginning July 1, 2014, and defines the kinds of devices that constitute an electronic cigarette for that purpose.

CONTENT AND OPERATION

Commercial activity tax

The commercial activity tax (CAT) is an annual tax imposed for the privilege of doing business in Ohio. It is based on a business' taxable gross receipts, which, generally, measures gross receipts from sales made in Ohio. The tax on a business' first $1 million in taxable gross receipts is between $150 and $2,600, with the amount depending on the business' taxable gross receipts. The tax rate on taxable gross receipts in excess of $1 million currently is 0.26%. Businesses with taxable gross receipts under $150,000 are exempted from the CAT. One-half of the revenue is credited to the General Revenue Fund and one-half is used to partially reimburse school districts and other local governments for the previously enacted elimination of taxes on business tangible personal property.

Rate increase

(R.C. 5751.03)

The bill increases the rate of the commercial activity tax from 0.26% to 0.30% of taxable gross receipts in excess of $1 million per year, beginning with the quarterly tax period that begins July 1, 2014.

Income tax

Under continuing law, the income tax is levied on individuals, estates, and some trusts. The tax base for individuals is federal adjusted gross income after several deductions and a few additions; for estates and trusts, the base is federal taxable income after several additions and deductions. The tax applies to residents, and to nonresidents who have income that is attributable to Ohio under statutory attribution rules. For residents who have income taxable by another state with an income tax, a credit is available to offset the tax paid to other states; for nonresidents who have income attributable to Ohio and another state, a credit is allowed to the extent the income is not attributable to Ohio.

Rate reductions

(R.C. 5747.02; Section 4)

The bill reduces income tax rates for all individuals, estates, and trusts and across all income brackets by 3.5% for taxable years beginning in 2014, an additional 3.5% for taxable years beginning in 2015, and an additional 1.5% for taxable years beginning in 2016 (compared to the rates currently in effect for those years). The reduced 2016 rates apply thereafter, resulting in an 8.5% reduction compared to the current rates for 2016 and thereafter.

Personal exemption increase for lower income taxpayers

(R.C. 5747.025)

Continuing law allows an income tax taxpayer to claim a personal exemption for the taxpayer, the taxpayer's spouse (if the spouses do not file separately), and the taxpayer's dependents. Currently, the personal exemption amount is $1,700.

The bill increases this amount for taxpayers whose Ohio adjusted gross income is $80,000 or less as reported on the taxpayer's individual or joint annual return. Beginning with taxable years that begin in 2014, the personal exemption amounts will be tiered as follows:

Ohio adjusted gross income	Personal exemption amount
$40,000 or less	$2,700
$40,001 to $80,000	$2,200
$80,001 or more	$1,700

The Tax Commissioner is required to adjust the personal exemption amounts for inflation on an annual basis, but, under continuing law, those adjustments are suspended through 2015. Accordingly, the bill specifies that inflation-indexing of the new exemption amounts will begin in 2016.

Earned income tax credit

(R.C. 5747.71)

The bill increases the state earned income tax credit from 5% of the federal earned income tax credit to 15% of the federal credit, beginning in 2014. Because of current limitations on the credit that will continue in effect, the tripling of the credit percentage will not necessarily result in a tripling of the credit amount.

Continuing law authorizes a state earned income tax credit for taxpayers who are eligible to claim the federal credit. The state credit is nonrefundable, so it can result only in a reduction or elimination of tax liability, not a refund. The credit is further limited for taxpayers whose Ohio adjusted gross income exceeds $20,000 (joint or separate, and after subtracting personal exemptions): for such taxpayers, the credit cannot exceed 50% of the tax due after subtracting all other nonrefundable credits other than the joint filing credit. This limitation means that the bill's increase in the credit percentage will not result in a tripling of the credit for all qualifying taxpayers. As shown in the table below, the proposed maximum credit amounts for taxpayers with qualifying children are less than three times the current maximum credit amounts, with the extent of the difference increasing with the number of qualifying children.

Maximum Earned Income Tax Credit for 2014				
Number of children	Maximum FAGI (separate/joint)	Maximum federal credit	Current maximum Ohio credit (5%)	Proposed maximum Ohio credit (15%)*
No children	$14,590/$20,020	$496	$24.80	$74.40
One child	$38,511/$43,941	$3,305	$165.25	$422.74
Two children	$43,756/$49,186	$5,460	$273.00	$470.81
More than two	$46,997/$52,427	$6,143	$307.15	$489.59

* These amounts reflect the 50% reduction in the credit for taxable incomes above $20,000 and the bill's proposed income tax rate reductions and increased personal exemption amounts.

The federal earned income tax credit is computed as a percentage of a person's earnings (including self-employment income). The credit percentage for persons with no children is 7.65%, 34% for those with one child, 40% for those with two children, and 45% for those with three or more children. The credit amount is phased out as a person's income increases. Various eligibility criteria must be satisfied, including limits on investment income ($3,350 for 2014), minimum and maximum ages (25 to 65 years), and qualifications for qualifying children. The federal credit is refundable.

Cigarette and other tobacco product taxes

Cigarette excise tax rate increase

(R.C. 5743.02 and 5743.32; Sections 3 and 7)

The bill increases the rate of the cigarette excise taxes from the current $1.25 per pack in two stages: to $1.55 from July 1, 2014, through June 30, 2015, and to $1.85 beginning July 1, 2015. On a per-cigarette basis, the tax rate increases from 6.25 cents (i.e., 62.5 mills) to 7.75 cents (77.5 mills) on July 1, 2014, and to 9.25 cents (92.5 mills) on

July 1, 2015. All revenue from the cigarette excise taxes will continue to be credited to the General Revenue Fund.

The rate increases also apply to cigarettes and tax stamps in dealers' inventories on the dates the increases take effect, and dealers must pay the "net additional tax" on those inventories. The net additional tax is the additional tax resulting from the rate increase for all cigarette packs bearing a tax stamp and for all unaffixed tax stamps in the dealer's possession at the beginning of business on each of the two dates the increases take effect. Wholesale dealers may subtract the dealer discount from the additional tax due.[1] All dealers owing additional tax must file a return with the Tax Commissioner and pay the tax by the following September 30. A late charge applies for late payments or returns equal to $50 or 10% of the tax due, whichever is greater.

Tobacco product excise tax rate increase

(R.C. 5743.01, 5743.51, 5743.62, and 5743.63; Sections 5 and 8)

The bill increases the rate of the tobacco product excise tax from the current 17% of the wholesale price (37% in the case of little cigars) in two stages: to 41% from July 1, 2014, through June 30, 2015, and to 49% beginning July 1, 2015.

All revenue from the tobacco product excise tax will continue to be credited to the General Revenue Fund.

Taxation of e-cigarettes under tobacco excise tax

(R.C. 5743.01, 5743.51, 5743.62, 5743.63, and 5743.65; Sections 5 and 8)

The bill subjects nicotine-containing products used with electronic cigarettes ("e-cigarettes") to the existing excise tax on tobacco products beginning with invoices dated on or after July 1, 2014, and defines the kinds of devices that qualify as e-cigarettes. For the purpose of the tax, the bill defines electronic cigarettes as follows:

> "Electronic cigarette" means any device that includes a mechanical heating element, battery, or electronic circuit and that can be used to deliver a vapor of nicotine or any other substance, the use of which device, or the inhalation of which vapor, simulates smoking. "Electronic cigarette" includes any such device whether manufactured, distributed, marketed, or sold as an e-cigarette, e-cigar,

[1] Under continuing law, wholesale dealers are allowed a discount against the tax due as a commission for affixing stamps. The discount may range from 1.125% to 10% of the tax due.

> e-pipe, or under any other product name or descriptor, and includes any cartridge or component of such a device or a related product.

The tax applies not to e-cigarettes themselves but to any product that contains nicotine in a cartridge or other component marketed or intended to be used with an e-cigarette. The tax is computed on the basis of the wholesale price of such a product even if the product includes components that do not contain nicotine unless the wholesale price of the nicotine-containing part of the product can be readily identified as such on an invoice or bill, in which case the tax applies only to the wholesale price of the nicotine-containing part.

Under current law, a cigarette or other tobacco product is subject to the cigarette or other tobacco product excise tax only if it is made of or contains tobacco.

HISTORY

ACTION	DATE
Introduced	03-11-14

H0472(L-2288).docx/emr

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

President
ERIC L. BURKLAND

The Ohio Manufacturers' Association

March 26, 2014

The Honorable Bill Batchelder
Speaker
Ohio House of Representatives
77 S. High St., 14th Floor
Columbus, OH 43215

The Honorable Keith Faber
President
Ohio Senate
1 Capitol Square, 2nd Floor
Columbus, OH 43215

RE: Commercial Activity Tax

Dear Speaker Batchelder and President Faber:

The Ohio Manufacturers' Association (OMA) has been a supporter of the 2005 tax reforms, including the creation of the commercial activity tax (CAT). The most important characteristics of the CAT are its broad base, its low rate, and its broad application to business entities

The CAT was enacted to promote the four main elements of sound tax policy: (1) equality, (2) simplicity of compliance, (3) transparency and (4) minimal disruption in economic decisions. The CAT promotes equality in that it applies to virtually all business activity in the state. It is simple due to the minimal calculations needed to determine the tax base. It is relatively transparent; while there is some pyramiding, the effect of the pyramiding is ameliorated by the low tax rate. And finally, the broad base and low rate minimize the intrusion of tax considerations in economic decisions by firms.

We continue to believe that any increase in the CAT rates or creation of new credits against the CAT will compromise the integrity, intent and effectiveness of the CAT. It is only through the broad application of this tax that the rate can be kept low, thereby encouraging economic growth and equitable treatment of Ohio's business taxpayers. If the CAT base is eroded, we can expect reduced competitiveness for Ohio businesses.

As the General Assembly considers revisions to the CAT as proposed in various bills under consideration (HB 483, HB 472, HB 375, HB 246, HB 230...), the OMA urges you to protect the low rate and broad base of the CAT.

Thank you for considering our position. Please do not hesitate to contact us if you would like to discuss these items further or if we can be of any assistance.

Sincerely,

Eric Burkland
President
Ohio Manufacturers' Association

cc: House Finance Committee Members
House Ways and Means Committee Members
Senate Finance Committee Members
Senate Ways and Means Committee Members

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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

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.

Tax

Severance Tax Bill Includes CAT Exclusion

This week the House Ways and Means Committee and the full House passed House Bill 375, the severance tax reform bill, with a commercial activity tax (CAT) exclusion for drillers that are pass-through entities.

Before the committee vote, OMA had sent a letter to Committee Chairman Jeff McClain (R-Upper Sandusky) requesting that no exclusions or credits to the commercial activity tax (CAT) be included as they weaken the CAT's broad base and threaten its low rate.

The OMA wrote, "Excluding this industry (oil and gas) from the CAT base narrows the base, reduces general revenue funds, and increases pressures to raise the rate."

It is uncertain that the Senate will act on the bill prior to summer break. *5/15/2014*

New Severance Tax Proposal

The House Ways and Means Committee was presented with a second modified version of HB 375, the severance tax proposal previously introduced in December 2013. This bill is the next step in a back and forth negotiation between the governor, who wants a larger, but still competitive severance tax in the state, and the House, which has been supportive of the oil and gas industry in its resistance to the governor's proposal. The OMA has supported the governor's position.

The governor had proposed a 2.75% tax on horizontal drilling, aiming to raise enough revenue to offset an 8.5% personal income tax cut over three years. House Republicans' latest substitute bill would raise the proposed tax rate to 2.5% of gross receipts from horizontal wells and would provide up to $54.2 million toward an income tax cut in fiscal year 2016. That amount would increase to as much as $166.1 million by FY 2019.

The bill provides for a flat exclusion of the first $10 million in wellhead gross receipts. This exclusion is intended to serve as a cost-recovery mechanism for drillers. And, the bill provides a commercial activity tax (CAT) exclusion for drillers that are pass-through entities, a further deterioration of the CAT base.

Here is a fiscal note on the bill. And, here is a bill summary prepared by OMA tax counsel Mark Engle of Bricker & Eckler. *5/8/2014*

OMA Supports JEDZ Legislation Fix

This week the OMA sent a letter to Senator Scott Oelslager (R-North Canton), Chairman of the Senate Finance Committee, offering its support for House Bill 289. The bill, sponsored by Representative Kirk Schuring (R-Canton) addresses flaws in Ohio's Joint Economic Development Zone (JEDZ) law which go beyond the original objective of supporting economic growth and development.

House Bill 289 contains the necessary provisions that resolve the unintended consequences of the JEDZ law, specifically that income tax revenues are being diverted from their intended economic development purposes unrelated to economic development, possibly in violation of due process for those paying the tax.

OMA's staff member on this issue and all tax matters is Rob Brundrett. *4/24/2014*

The CAT and Manufacturing

Did you know?

Manufacturers are the second-largest group of commercial activity tax (CAT) taxpayers, representing 9.8% of all taxpayers (retail trade is the largest).

Manufacturers pay 27.8% of all CAT before credits and 26.2% of all CAT after credits – generally one-third more than the next largest taxpayer group (retail trade).

So, manufacturers pay more than two and a half times as much of the tax as the average of the rest of the CAT taxpayers, making manufacturing much more sensitive to changes in the tax rate. No surprise, because the scale of economic activity that surrounds manufacturing is much greater than any other sector.

Use this CAT factsheet to help elected officials understand the CAT and manufacturing. *4/16/2014*

State Income Tax Refunds up 43%

Refunds from the Ohio income tax increased by 43% from last year to this, according to the state tax department. The average refund was $505 this year. Last year, the average was $288.

The increase is principally due to tax reforms made last June in the state budget developed by Governor

Kasich. That budget included an 8.5% cut in the state's income tax rates for 2013, as well as a 50% deduction that small businesses could apply to the first $250,000 of net income.

The Department of Taxation thinks that the savings this year for small businesses will be about $147.5 million, because of the reforms. *4/17/2014*

Impact of CAT Carve-Outs? $370 Million in Foregone Revenue

At its March meeting, the OMA Board of Directors requested research into the impact of the multiple exclusions, deductibles and credits to the Ohio commercial activity tax (CAT). The directors were concerned about the effect of the carve-outs in narrowing the base of the tax.

The research has been completed. Estimates of total revenue foregone in FY 2015 by the state General Revenue Fund from various CAT exclusions, deductions and credits total $373 million. Actual total foregone revenues will be higher than estimated total forgone revenues, which reflect indefinite revenues for casino receipts and undetermined revenues for the public services exclusion, petroleum receipts and motion picture credit.

The OMA believes that broadening the base would be a good way to raise revenues to help the governor achieve his aim of further lowering the state personal income tax, something the OMA supports. *4/10/2014*

Tax Foundation Ranks Ohio 18th

The Tax Foundation released its annual state and local tax burdens rankings. Ohio is ranked 18th highest in tax burden. The organization "computes this measure of tax burden by totaling the amount of state and local taxes paid by state residents to both their own and other governments and then divide these totals by each state's total income."

The foundation says Ohio ranks 30th in per capita income.

The state and local tax burden estimates are for FY 2011 using the most recent data available as of January 2014. *4/10/2014*

Get the CAT Credit for Rehab of Historic Buildings Out of Bill

A commercial activity tax (CAT) credit for historic building rehabilitation is in the appropriations bill of the mid-biennium review, House Bill 483. The OMA will attempt to remove the provision by offering an amendment.

The OMA sent this letter to legislative leaders last week citing negative impacts on manufacturing of the proposed CAT rate increase as well as CAT credits and exemptions.

If you haven't already, let your representative and senator hear from you about maintaining the integrity of the CAT. Here are some talking points for your use. *4/3/2014*

Protect CAT Competitiveness

The Ohio General Assembly is currently conducting hearings on numerous bills that would weaken the competitiveness of the Commercial Activity Tax (CAT).

House Bill 472 would raise the current CAT rate by 15 percent, from .26 percent to .30 percent. House Bill 483 contains a CAT credit for the rehabilitation of historic buildings. And additional bills – HB 219, HB 230, HB 246, and HB 375 – include CAT credits and exclusions that would further erode the CAT-paying base.

The OMA has a long standing position of protecting the broad base and low rate of the CAT, because those elements are fundamental to the CAT's fairness and competitiveness. Increases to the CAT rate will drive up the cost of consumer goods and services and make Ohio businesses less competitive. Allowing carve-outs and credits will erode the broad base of the CAT that is essential to keeping the rate low.

Protect your best interests. Contact your state legislators to urge them to reject any proposals that will increase the CAT rate or limit who is subject to pay it. Here is a CAT Fact Sheet to use. *3/26/2014*

Permanent Tax Savings for Exporters of Any Size

OMA Connections Partner, McGladrey, recommends that U.S. manufacturers that export evaluate the tax benefits of an "interest-charge domestic international sales corporation" or IC-DISC. An IC-DISC is a domestic corporation that primarily engages in foreign sales and exporting activity, and it can provide permanent federal income tax savings for qualifying companies with little change to business operations.

According to McGladrey, IC-DISCs are simple to establish and, in many cases, the benefits significantly exceed the costs. Read McGladrey's IC-DISC white paper. *3/26/2014*

Tell Legislators the Effect of CAT Increase

In carving the mid-biennium review (MBR) into fourteen different bills, the House assigned two commercial activity tax (CAT) provisions to separate committees.

The 15% CAT rate increase, from .26% to .30%, was retained in House Bill 472, together with the remainder of the tax reform proposals. This bill will be heard in the House Ways and Means Committee. Here's the bill analysis.

The CAT credit for historic building preservation was added to House Bill 483, which also includes miscellaneous policy provisions and appropriations. This bill will be heard in the Finance and Appropriations Committee. And, here is that bill's analysis.

Both of these CAT changes run afoul of OMA's principle of preserving the tax's broad-base, low-rate. The OMA urges you to communicate to legislators the impact of the proposed CAT increase on your business. Legislators are looking for your input. *3/20/2014*

CAT Tax Exemption for Alternative Fuel Vehicles

House Bill 336, a bill that is intended to encourage the acquisition and use of motor vehicles propelled by alternative forms of motor fuel, was passed out of the House this week. The measure is sponsored by Rep. Sean O'Brien (D-Hubbard).

The bill 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 (CAT). 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.

Unlike most CAT credit proposals, this bill's credit would sunset five years after the bill becomes effective.

Read a bill analysis prepared by OMA tax counsel Mark Engel of Bricker & Eckler. *3/13/2014*

Governor Kasich Proposes 8.5% Personal Income Tax Cut

Governor Kasich continues his push for tax reform in his "mid biennial review," House Bill 472. He has championed a number of tax reductions in his term.

The centerpiece of the governor's tax changes is an 8.5% reduction in personal income tax rates implemented over three years, coupled with government savings and increases in tobacco, commercial activity, and severance taxes to help pay for the reduction in tax rates.

Read an analysis of the tax proposals prepared by OMA tax counsel Mark Engle of Bricker & Eckler. Of particular note to manufacturers is a proposed increase of the commercial activity tax from 0.26% to 0.3% of taxable gross receipts, an increase of 15.38%

The OMA has a longstanding position of advocating for a broad base and low rate in the CAT. Its position on these tax proposals will be established by the OMA Board of Directors, in consultation with the OMA Tax Committee and OMA Government Affairs Committee. *3/12/2014*

Brown Announces "Manufacturing Community Investment Act."

As the U.S. Senate Finance Committee begins it consideration of tax extenders, Senator Sherrod Brown launched an effort to renew the New Markets Tax Credit (NMTC) while also providing assistance for communities suffering from manufacturing job loss.

Brown's bill, the "Manufacturing Community Investment Act," aims to "spur local job creation by extending and enhancing the NMTC to allocate additional dollars for investment in struggling manufacturing communities."

The legislation would extend the NMTC (which expired after 2013) for an additional three years, increase its annual allocation from $3.5 billion to $5 billion, and provide for an additional $1 billion a year in 2014, 2015 and 2016 for manufacturing investments in communities which have suffered major manufacturing job loss. *3/12/2014*

Governor Seeks Additional Income Tax Cuts

In his State of the State address this week, Governor Kasich announced his intention to seek legislative approval of a reduction of the top rate of the Ohio income tax to below 5%. The tax rate is scheduled to be 5.33% next year.

In a fact sheet on the speech, the governor's office notes: "Since taking office in 2011 (the governor) and the General Assembly have reduced taxes by $3 billion by eliminating the death tax, cutting small business taxes in half and cutting the state income tax by 10 percent."

On its website, the Ohio Society of Public Accountants reports "ongoing discussions by state officials include the possibility of significantly increasing the Commercial Activity Tax (CAT) rate, as well as taxes assessed on various "sin" products, such as tobacco, in exchange for further reducing Ohio's income tax rates. The goal is to get the top income tax rate below 5%." The society notes that Ohio reduced "state income tax rates by 4% in 2011 (the final phase of the 2005 tax reform law change calling for a total rate cut of 21%), and by an additional 10% in 2013 (fully rolled out in 2015). Efforts continue to further reduce the income tax rates to be more competitive with surrounding states and with other economic development competitors such as Florida and Texas." *2/26/2014*

Governor's State of the State On Tap

Next Monday, January 24, Governor Kasich will give his State of the State speech in Medina. He is expected to outline the pillars of his coming (and closely guarded) mid-biennium review (MBR) bill and other initiatives for the coming year.

You can watch the governor's speech on the Ohio Channel. The program starts at 7:00 p.m.

The governor seeks to further reduce Ohio personal income tax rates, and the MBR provides an opportunity for this potential tax reform.

One rumor around the state capital is that the governor will propose to fund it in part with an increase in the commercial activity tax (CAT) rate. *2/20/2014*

OMA Tax Committee Studies Cost of Local Government

This week the OMA Tax Committee heard a presentation by Randy Cole, Ohio Controlling Board President and Office of Budget Management policy advisor. The presentation documents the explosion in number and cost of local taxing districts in Ohio over the past 100 years.

Cole described state initiatives that encourage shared services to improve economies among these independent government entities.

The OMA supports the administration's efforts that reduce the number and cost of local government in Ohio. *2/20/2014*

Pictured: Randy Cole, President, Ohio Controlling Board

Pass-through Entities: Take Your 2013 Deduction!

OMA Connections Partner, GBQ Partners, reminds taxpayers of businesses structured as "pass-through entities" (PTEs) to consider how the recently passed Ohio tax reform legislation will affect their personal Ohio income tax returns for the 2013 tax year.

In June 2013, Governor Kasich signed into law House Bill 59, which introduced multiple legislative provisions that cut taxes for Ohio individual taxpayers. Among the cuts was the new Ohio Small Business Investor Income Deduction, which provides a substantial tax benefit to owners of pass-through entities doing business in the state of Ohio.

The deduction allows individual taxpayers who invest in PTE businesses to exclude from their Ohio adjusted gross income 50 percent of Ohio net business income earned from all PTEs. The exclusion is available for the first $250,000 of Ohio-sourced business income from PTEs. Read more. *2/18/2014*

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: 3/26/2014 - **SIGNED BY GOVERNOR**
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: 4/1/2014 - **SUBSTITUTE BILL ACCEPTED & REPORTED OUT**, House State and Local Government, (Sixth 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: 5/21/2014 - House Ways and Means, (Second 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: 2/26/2014 - **BILL AMENDED**, House Ways and Means, (Second 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: 5/20/2014 - Senate Finance, (Sixth 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: 3/31/2014 - Referred to Committee Senate Finance
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: 3/19/2014 - House Ways and Means, (First Hearing)
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: 5/21/2014 - House Ways and Means, (First Hearing)
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 **MBR-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: 5/14/2014 - **PASSED BY HOUSE**; Amended on Floor Bill Vote 55-35
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: 3/19/2014 - House Ways and Means, (First Hearing)
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_405

HB450 **SALES TAX HOLIDAY** (PATTERSON J) 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: 2/25/2014 - Referred to Committee House Ways and Means
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_450

HB472 **MBR-MID-BIENNIUM BUDGET REVIEW** (MCCLAIN J) To make operating and other appropriations and to provide authorization and conditions for the operation of state programs.
Current Status: 3/26/2014 - House Ways and Means, (Third Hearing)
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_472

HB478 **NEW MARKETS TAX CREDIT** (BOOSE T) To eliminate the requirement that a taxpayer receive a federal New Markets tax credit in order to qualify for the state New Markets tax credit, to allow taxpayers to claim the credit earlier in the credit schedule, and to allow credit-eligible investments to be made in low-income community businesses that derive 15% or more of annual revenue from the rental or sale of real property.
Current Status: 5/21/2014 - House Ways and Means, (First Hearing)
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_478

HB483 **MBR-OPERATION OF STATE PROGRAMS** (AMSTUTZ R) To make operating and other appropriations and to provide authorization and conditions for the operation of state programs.
Current Status: 5/21/2014 - Senate Finance, (Sixth Hearing)
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_483

HB492 **MBR-TAXATION** (SCHERER G) To provide authorization and conditions for the levy and administration of taxes in this state.
Current Status: 5/21/2014 - Senate Finance, (Sixth Hearing)
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_492

HB510 **COMMERCIAL ACTIVITY TAX** (BRENNER A) To reduce the commercial activity tax (CAT) rate and minimum payment amounts and to reduce the proportion of CAT revenue allocated to the general revenue fund.
Current Status: 4/1/2014 - Referred to Committee House Ways and Means
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_510

HB517 **MOTOR FUEL RECEIPTS TAX** (SMITH R, ROSENBERGER C) To change the motor fuel receipts tax to be imposed on gross receipts to a petroleum activity tax to be imposed on a hybrid of gallonage and the average wholesale price of gasoline and diesel fuel.
Current Status: 5/7/2014 - Referred to Committee House Ways and Means
State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_517

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: 2/25/2014 - Senate Finance, (Fourth 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: 3/26/2014 - House Finance and Appropriations, (First Hearing)

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

SB282 **MUNICIPAL CORPORATIONS-INCOME TAX** (JORDAN K) To prohibit municipal corporations from levying an income tax on nonresidents' compensation for personal services or net profits from a sole proprietorship.

Current Status: 2/19/2014 - Referred to Committee Senate Ways and Means

State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_SB_282

SB323 **MOTOR FUEL RECEIPTS TAX** (HITE C, SEITZ B) To change the motor fuel receipts tax to be imposed on gross receipts to a petroleum activity tax to be imposed on a hybrid of gallonage and the average wholesale price of gasoline and diesel fuel.

Current Status: 4/8/2014 - Referred to Committee Senate Ways and Means

State Bill Page: http://www.legislature.state.oh.us/bills.cfm?ID=130_SB_323

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