10:00 a.m. (EST)
1-866-362-9768
552-970-8972#

Tax Committee
June 8, 2016

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2016 Tax Committee Calendar

Meetings will begin at 10:00 a.m.

Wednesday, June 8, 2016
Wednesday, November 9, 2016

OMA Tax Committee Meeting Sponsor:

OMA Tax Policy Committee
June 8, 2016

AGENDA

Welcome & Self-Introductions:	Michele Kuhrt, Chairman Lincoln Electric
Guest Speakers	Julie Jurosic, Anchor Financial Services
	Mark Blawas, RSM US LLP
OMA Public Policy Report	Rob Brundrett, OMA Staff
OMA Counsel's Report	Mark Engel, Bricker & Eckler LLP

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:

OBM

May 10, 2016

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

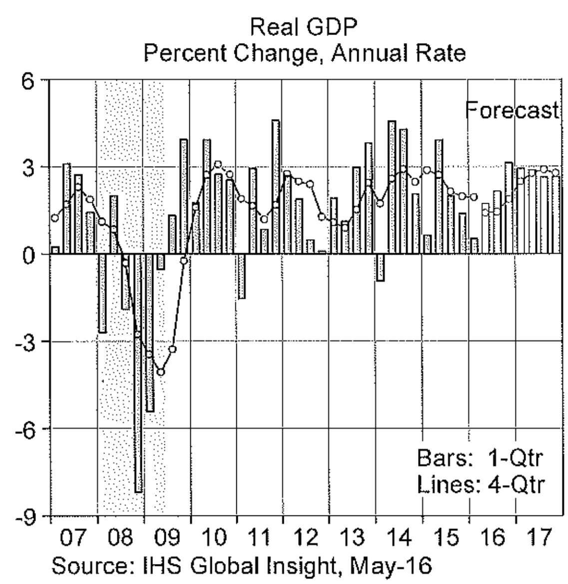
Economic Performance Overview

- First-quarter real GDP growth slowed to 0.5% from 1.4% in the fourth quarter. Recent economic data suggest that growth will pick up during the year.
- U.S. employment increased by 160,000 jobs in April and the unemployment rate was unchanged at 5.0%. Employment growth during the two previous months was revised down by a total of 19,000 jobs.
- Ohio nonfarm payroll employment increased by 18,300 jobs in March and the unemployment rate drifted higher to 5.1% as the labor force swelled.
- The consumer sector remains strong, while manufacturing continues to struggle and construction remains in an uptrend.

Economic Growth

Real GDP growth slowed to 0.5% in the first quarter from 1.4% during the fourth quarter of last year. Compared with a year earlier, growth was 1.9% – marginally below the average since this expansion began in mid-2009. During the most recent half-year the economy has decelerated to the slowest pace by a slim margin since the fourth quarter of 2012.

The **increase in first-quarter** real GDP primarily reflected increases in personal consumption expenditures, residential fixed investment, and state and local government expenditures. Nonresidential fixed investment, private inventory investment, exports, and federal government spending subtracted from growth during the quarter. Imports, which are automatically included in these individual categories and then subtracted as a separate category, increased, thus acting as a drag on GDP.



The **deceleration in overall GDP growth** from 1.4% in the fourth quarter to 0.5% in the first quarter of 2016 reflected the following major changes:

- **i)** A deceleration in consumption expenditures from 2.4% growth to 1.9%;
- **ii)** A deeper drop in nonresidential fixed investment, which went from -2.1% to -5.9%;
- **iii)** A switch from increasing to decreasing federal government expenditure, which went from +2.3% to -1.6%;
- **iv)** An increase in imports, which is a negative for GDP;
- **v)** A larger decrease in exports, which went from -2.0% to -2.6%.

Partly offsetting these impacts were growth in state and local government spending, which had declined the prior quarter, and an increase in residential fixed investment (housing) after two quarterly declines.

The outlook is less bleak than the weak first-quarter showing would seem to indicate, according to **leading economic indicators**. The Leading Economic Index (LEI) from the Conference Board, for example, increased 0.2% in March breaking a string of three straight monthly declines. Six of the ten components made positive contributions in the most recent month, led by stock prices. Only two of the components made negative contributions.

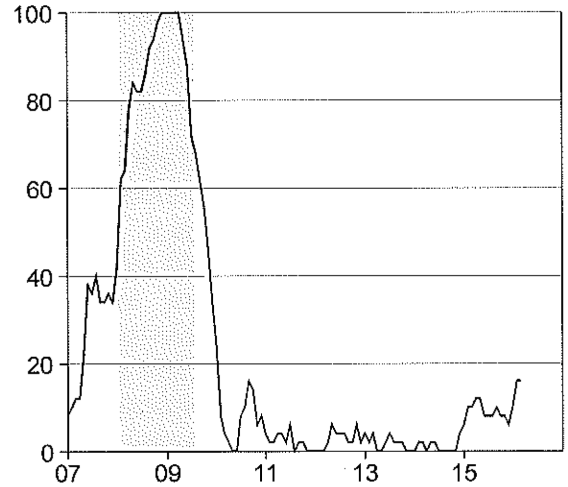
The year-over-year rate of change in the LEI stabilized near 2.2% in the most recent month after an abrupt slowdown that started a little more than a year ago, remaining consistent with continued economic expansion. In contrast, the rate of change in the index regularly has turned negative in advance of recessions in the past. The weakness so far during this cycle appears to be related to manufacturing activity, which has been affected by the strength of the dollar, weaker demand growth overseas, and the sharp pullback in the energy industry. Strength in labor markets and lower energy costs appear to be bolstering consumer income and spending.

The diffusion of changes in the **Coincident Economic Index** across the states – a leading indicator at past business cycle turning points – remained weak in late winter as the number of states with positive changes fell from 43 in January to 41 in February and March. The number of states for which the index increased from three months prior fell from 43 in February to 42 in March. The pattern is the weakest since 2010 and has lasted longer, but still points to economic growth. Further deterioration from current levels, however, would begin to raise questions about the durability of the expansion.

The **Ohio Leading Economic Index** from the Philadelphia Federal Reserve was 1.6% in March, almost exactly matching the average of the previous twelve months. The index is designed to predict the rate of change in the coincident index during the next six months. The recent pattern suggests that growth of the Ohio economy will remain moderate through the spring and summer.

The number of states with a positive **Leading Economic Index** fell from 45 in January to 42 in February and March – the lowest level since very early in the expansion. Even so, at 8, the number of negative readings remains below the threshold that has coincided with the onset of recession in the past. For example, the number of states with negative readings increased to an average of 15 three months in advance of the most recent three recessions and to an average of 23 during the first month of those recessions.

State Composite Leading Indexes
% Negative in Most Recent Month



Source: Philadelphia Fed. Latest data March

The **consensus of forecasters** is that economic growth will proceed throughout 2016 at a modest pace that is somewhat faster than over the turn of the year. Predictions center on 2.5% for the second quarter, according to the Survey of Professional Forecasters (SPF) conducted by the Philadelphia Federal Reserve. A widely followed tracking estimate of GDP that is compiled by the Atlanta Federal Reserve Bank was 1.7% in early May, while the Blue Chip consensus forecast was 2.3%.

Employment

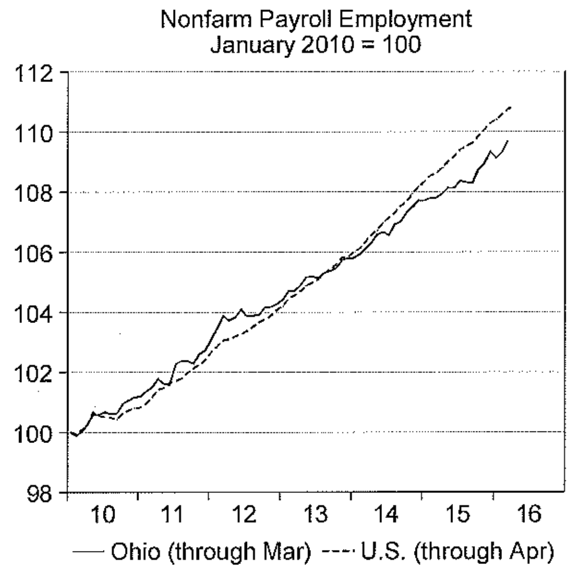
Job growth slowed in April, but probably for temporary reasons. **U.S. nonfarm payrolls** increased by 160,000 jobs during the month, which was below expectations and is the smallest gain since last September. Employment growth during the two previous months was revised down by a total of 19,000 jobs. Job growth averaged 203,000 jobs per month during the previous three months. The average job gain per month has been 224,000 for the most recent twelve months, including April.

The construction, retail, and government sectors – where employment has strong seasonal patterns – accounted for almost all of the slowdown in job growth. Construction employment slowed from an increase of 41,000 jobs in March to a gain of only 1,000 jobs in April. Employment in retail declined by 3,100 jobs, and government employment fell by 11,000 jobs. The April weakness in these areas could very well be a statistical (perhaps seasonal) adjustment to strong gains earlier in the year and not be reflective of any weakening in labor markets.

Otherwise, job growth was relatively widespread, led by professional and business services (+65,000), education and health services (+54,000), leisure and hospitality (+22,000), and financial activities (+20,000). Manufacturing employment posted a gain of 4,000 jobs, following a 2-month decrease of 45,000 jobs, and mining and logging employment declined by 8,000 jobs for the 19th straight monthly decline.

The **unemployment rate** was unchanged at 5.0% on the month, but only because of a 362,000 person reduction in the labor force. The decline followed several months of strong increases. The broadest measure of unemployment – the U-6 unemployment rate – declined 0.1 point back to its low for the expansion of 9.7%. The U-6 unemployment rate includes those who want to work but have stopped looking because they believe they cannot find a job, as well as those working part-time but seeking full-time work. Average hourly earnings rose 0.3% to 2.5% above the year earlier level.

Ohio nonfarm payroll employment increased by 18,300 jobs in March, following a revised 10,200 job increase in February. These increases more than overcame a 10,100 job decrease in January. The month-over-month increase was led by professional and business services (+7,000), government (+6,900), and educational and health services (+5,400). Nonfarm payroll employment decreased in manufacturing (-4,300), construction (-1,000), and natural resources and mining (-400).



Among the **contiguous states**, year-over-year employment growth through March was highest in Michigan (+2.3%), followed by Kentucky (+2.0%), Ohio (+1.8%), Pennsylvania (+1.4%), and Indiana (+1.3%). Employment again declined from a year earlier in West Virginia (-0.7%). For manufacturing employment, growth was generally lower, which is not surprising given how manufacturing has struggled to overcome headwinds at the national level. Michigan had the strongest growth (+2.3%), followed by Kentucky (+1.6%) and Ohio (+0.2%). Manufacturing employment declined in Indiana (-0.3%), Pennsylvania (-0.8%), and West Virginia (-1.5%).

The **Ohio unemployment rate** continued to drift higher in March, rising 0.1 point to 5.1%. The rate is up 0.5 points from the cyclical low of 4.6% reached last September. The increase during the six months resulted from an even larger increase in the Ohio labor force (+105,198) than in total employment (+73,949). The unemployment rate was unchanged from a year earlier.

The Ohio labor force has actually increased by over 96,000 people in just the last three months. This increase is so large that it creates some skepticism about whether the numbers will later be revised downward. If not, this increase in the Ohio labor force is the largest sustained increase since 1978.

Across the country in March, the unemployment rate decreased by a statistically significant amount in 6 states, increased in 4 states, and was not statistically different from the month before in 40 states. The unemployment rate was lower than a year earlier by a statistically significant margin in 18 states and meaningfully higher only in Wyoming and North Dakota.

Consumer Income and Consumption

Personal income rebounded in March and consumer spending growth remained modest. **Personal income** increased 0.4% after growth slipped to 0.1% in February from 0.4% in January. **Wage and salary disbursements** – the largest single component of personal income – also increased by 0.4% after a 0.1% decrease the month before.

For the quarter, personal income increased at an annual rate of 3.4%, while wage and salary disbursements rose 3.9%. Compared with a year earlier, personal income was higher by 4.2% and wage and salary disbursements were up 4.7%. Consumers have funneled much of this solid growth in income into savings and or debt reduction recently, as saving as a percent of disposable personal income increased from 4.9% in November to 5.4% in March.

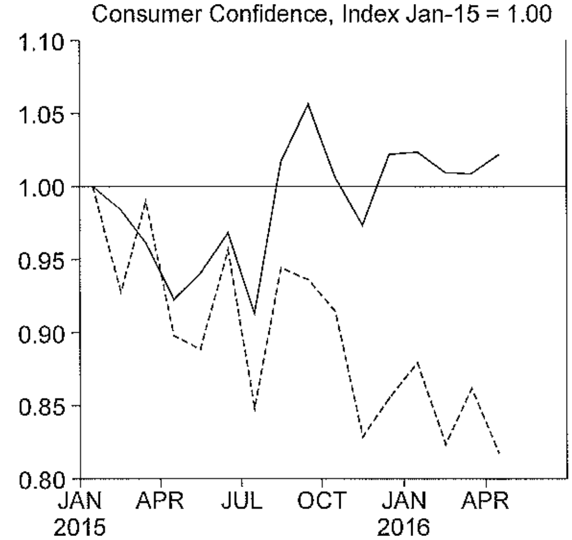
Inflation remains low, providing some support to consumer spending. The **Consumer Price Index** (CPI) increased just 0.1% in March after declining on balance for three months, in part reflecting sustained declines in the price of gasoline. The CPI is up by just 0.9% from a year earlier. Nonetheless, analysts expect inflation to move higher in coming months as the steep decrease in energy prices that started more than a year ago drops out of year-over-year comparisons.

Excluding the volatile food and energy categories as a means of assessing the underlying trend, the index increased 0.1% in March to 2.2% above its year earlier level. The Median CPI from the Federal Reserve Bank of Cleveland, an alternative measure of the inflation trend, continued to track a little bit higher at 2.4% year-over-year. The measure of inflation that is most closely watched by the Federal Reserve, the personal consumption expenditure (PCE) deflator excluding food and energy (also known as the core deflator) increased 0.1% in March to 1.6% above its year earlier level.

Personal consumption expenditures increased by less than incomes and rose only 0.1%, but the January and February gains were revised up from 0.1% to 0.2%. Spending on services increased 0.1%, while spending on non-durable goods increased 0.6% and spending on durable goods fell 0.6%. The decrease in spending on durable goods reflected the slowdown in the pace of **light motor vehicles** from an annual rate of 17.4 million units in February to 16.5 million units in March. Vehicle sales snapped back to a 17.3 million unit pace in April. Spending on services and non-durable goods is also expected to have strengthened in April.

Consumer confidence deteriorated marginally in April. The Conference Board Index of Consumer Confidence fell from 96.1 to 94.2, erasing most of the March increase. The University of Michigan/Reuters Index of Consumer Sentiment likewise moved down from 91.0 to 89.0. In both cases, the declines resulted entirely from dimmer views of the future, as assessments of current conditions improved modestly. Expectations have trended down for the past year, as views of current conditions have improved (Conference Board) or been little changed on balance (University of Michigan/Reuters).

Consumer Confidence, Index Jan-15 = 1.00



Source: The Conference Board

Manufacturing

Fledgling signs of some firming in manufacturing a month ago gave way to renewed softness in March, as the headwinds from the stronger dollar, slower growth in foreign economies, and adjustments in the energy industry continued. Nonetheless, recent economic trends are still consistent with overall economic expansion and possibly a modest strengthening in manufacturing activity as the year unfolds.

Industrial production decreased 0.6% in March, matching the 0.6% decrease in February and reflecting weakness across the major sectors of mining, utilities, and manufacturing. **Mining output** decreased 2.9% for the seventh straight monthly decline, due to the ongoing retrenchment in the energy patch. **Utility output** fell 1.2%, as the winter ended on a mild note. **Manufacturing output** fell 0.3% and the 0.1% increase originally reported for the previous month was revised down to a 0.2% decline, making the March setback the second in a row and the ninth in the most recent twelve months.

Reports from **purchasing managers** remained consistent with an expanding manufacturing sector during April, but were less robust than in March. The PMI® decreased by 1.0 but remained above the neutral level of 50.0 for the second month in a row. The important New Orders index retreated from 58.3 to 55.8, despite a slight improvement in the New Export Orders, which increased from 52.0 to 52.5. The Production index likewise declined from 55.3 to 54.2. The Backlog of Orders Index remained just above neutral, but the Supplier Delivery Index edged just below.

Of the 18 industries tracked by the Manufacturing ISM® *Report on Business*, 11 reported growth in the latest month. Among the industries with a disproportionate effect on Ohio manufacturing employment, the machinery, fabricated metal products, and primary metals industries expanded, according to purchasing managers. Activity in the transportation equipment industry contracted. One respondent in the fabricated metal products industry referred to business as "[k]ind of lackluster." A representative of the machinery industry reported that the "[a]uto industry is still going strong."

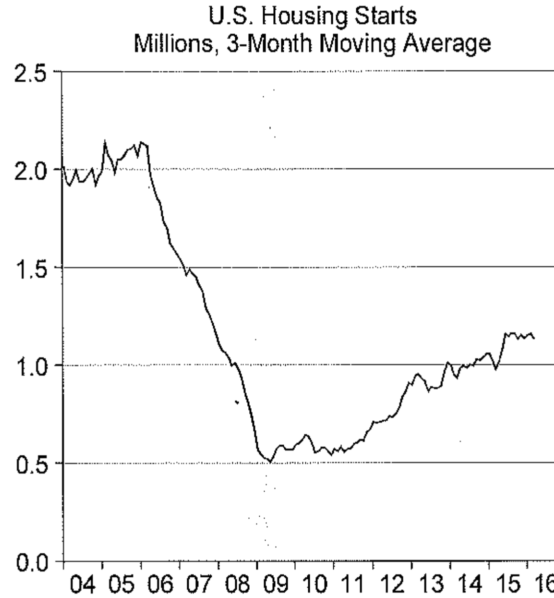
Analysts anticipate that the recent rebound in the price of oil and depreciation of the dollar will support manufacturing activity increasingly as the year progresses. The price of West Texas Intermediate crude has been trading in the mid-40 dollars per barrel area, which is still well below the more than 100 dollars per barrel of mid-2014 but is up appreciably from the mid-20s reached in February. Similarly, the trade-weighted foreign exchange value of the dollar is down about 8% from its peak in January and back to its level of a year ago, although still about 15% higher than two years ago.

Construction

Construction put-in-place grew by 0.3% in March and the February gain was revised up from 0.5% to 1.0%. Private construction increased 1.1%, while public construction decreased 1.9%. The entire gain in total construction put-in-place occurred in the residential sector, which increased 1.5% on the month. Nonresidential construction put-in-place decreased 0.4%.

Compared with a year earlier, total construction grew 8.0% – well below the 13.7% year-over-year comparison last August.

Private nonresidential construction put-in-place increased 0.7% in March following gains of 2.0% in January and 0.8% in February. Large increases in manufacturing and transportation construction more than offset declines in power, ducation, and office construction. **Private residential** construction put-in-place increased 1.6%, reflecting a 5.6% increase in multi-family, no change in single-family, and a large estimated increase in improvements.



A bad month for housing in March carried through to the 3-month moving averages of permits, starts, and sales. **Housing permits** dropped 3.6% in March on a 3-month moving average basis, reflecting a small drop in single-family and an 8.6% drop in multi-family. The Midwest bucked the national trend, with increases of 2.9% in single-family and 5.5% in multi-family, which combined for a 3.9% increase in total permits across the region.

Housing starts fell by 2.0% across the country in March on a 3-month moving average basis, pulled down by a 6.0% drop in multi-family and with no help from a 0.2% decrease in single-family. Midwest starts followed the same pattern, as a 19.8% decline in multi-family more than offset a 2.3% increase in single-family to produce a 2.9% decline overall.

Existing home sales and **new home sales** weakened further as the quarter came to a close, both in the Midwest and across the country. Inventories of homes for sale remained very well in line with the current pace of sales. The **Pending Homes Sales Index** – which measures housing contract activity for single-family homes, condos, and co-ops, and usually leads existing home sales by a month or two – moved modestly higher again in March both across the country and in the Midwest.

Home prices across the country posted their 49th consecutive increase in February, rising by 0.4% to 5.3% above the year earlier level, according to the Case-Shiller index. The rate of increase picked up markedly in the second half of last year.

REVENUES

Note: This month's report includes the adjusted monthly and year-to-date revenue estimates that reflect the impacts of S.B. 208 and H.B. 340, which began with January revenue collections. S.B. 208, signed by Governor Kasich on November 15, included reductions in income tax and commercial activity tax revenues. There are also small increases in financial institutions tax revenue that will result from the repeal of a credit in H.B. 340, signed by Governor Kasich on December 22.

April GRF receipts totaled $2,828.0 million and were $50.5 million (1.8%) below the estimate. A $126.4 million negative variance in tax receipts was partially offset by a $75.9 million positive variance in non-tax receipts and transfers to create the monthly shortfall.

Monthly tax receipts totaled $1,814.3 million and were $126.4 million (6.5%) below the estimate. Non-tax receipts totaled $1,012.8 million and were $75.0 million (8.0%) above the estimate, and transfers totaled $0.9 million, $0.9 million above the estimate. Within the tax revenue category, the personal income tax ($109.4 million or 13.2%) represents approximately 87% of the shortfall, primarily due to a negative variance in payments associated with annual returns. Among the other tax categories that had negative monthly variance are the auto sales and use tax ($12.3 million or 9.5%), kilowatt hour tax ($3.9 million or 11.3%), and the non-auto sales and use tax ($3.5 million or 0.4%). Above estimate collections in the cigarette and other tobacco products tax ($4.9 million or 6.6%) and the corporate franchise tax ($2.0 million) partially offset the shortfall in other categories. In the non-tax receipt category, federal grants ($88.3 million or 9.7%) were above the estimate as a result of higher than estimated Medicaid spending, which was the result of spending that had been planned to be made from hospital assessment revenues instead being paid by GRF funds. Moving forward, a new hospital assessment plan has been approved by the federal government, thus this should be a one-time impact that should be offset over the last two months of the fiscal year.

Monthly variances by category are summarized in the table below (data are shown as $ in millions).

Individual Revenue Sources Above Estimate		**Individual Revenue Sources Below Estimate**	
Federal Grants	$88.3	Personal Income Tax	($109.4)
Cigarette and Other Tobacco Tax	$4.9	License & Fees	($17.4)
Earnings on Investments	$3.9	Auto Sales & Use Tax	($12.3)
Corporate Franchise Tax	$2.0	Kilowatt Hour Tax	($3.9)
Foreign Insurance Tax	$1.1	Non-Auto Sales & Use Tax	($3.5)
		Financial Institutions Tax	($2.0)
		Commercial Activities Tax	($1.6)
		Alcoholic Beverage	($1.6)
Other Sources Above Estimate	$1.9	Other Sources Below Estimate	($0.9)
Total above	**$102.1**	**Total below**	**($152.6)**

For the fiscal year, tax revenues are now below the estimate, with a shortfall of $117.2 million (0.7%). Non tax revenues are $193.2 million (1.8%) below estimate, with more than the entire shortfall arising from federal grants, which are $224.1 million (2.1%) below estimate. Transfers are $3.9 million (2.0%) over estimate.

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	($117.2 million)	-0.7%
Non-tax receipts	Federal grants, earnings on investments, licenses & fees, other income, intrastate transfers	($193.2 million)	-1.8%
Transfers	Budget stabilization, liquor transfers, capital reserve, other	$3.9 million	2.0%
TOTAL REVENUE VARIANCE:		**($306.5 million)**	**-1.1%**

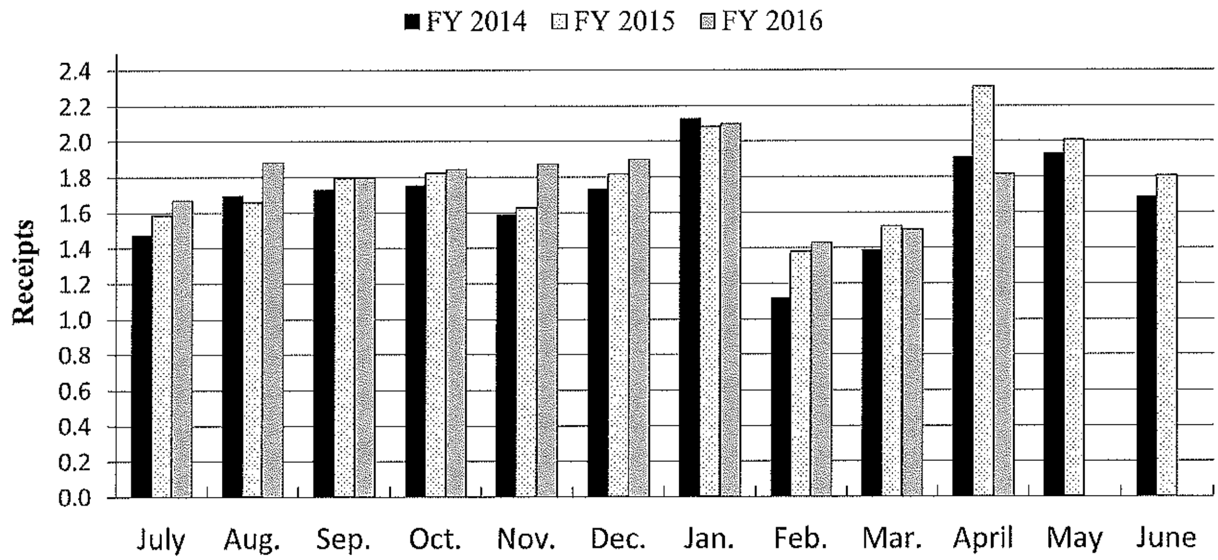
On a year-over-year basis, monthly receipts were $278.5 million (9.0%) lower than April of the previous fiscal year, due to the $491.4 million (21.3%) decline in tax receipts. The revenue in non-tax receipts ($214.0 million or 26.8%), however, offset almost half of this shortfall. The personal income tax ($505.0 million or 41.3%) accounts for more than the entirety of the shortfall in tax receipts. Year-over-year auto sales and use tax ($10.9 million or 8.5%) also declined in April, however, growth in the commercial activity tax ($11.4 million or 44.1%), the cigarette and other tobacco products tax ($9.2 million or 13.2%), and the non-auto sales and use tax ($6.7 million or 0.9%) partially offset the declines in other areas. Growth in federal grants ($213.0 million or 27.0%) represents nearly all of the growth in the non-tax receipts category, in addition to growth in earnings on investments ($3.1 million or 47.4%).

The increases in the CAT and cigarette and other tobacco taxes are both primarily due to law changes in H.B. 64, the biennial operating budget. Specifically, the commercial activity tax (CAT) increase is due to the increase to 75% from 50% in the share of CAT receipts going to the GRF. The cigarette tax change is due to the tax rate increase enacted in the biennial budget and the payment of "floor stocks tax" for cigarettes held in inventory prior to the rate increase.

The decline in the income tax is also due to law changes in H.B. 64, where tax rates were reduced by 6.3% and the deduction for the profits of pass-through entities (the small business deduction) was substantially increased.

Tax Revenue Comparison by Month

($ in billions)



Personal Income Tax

April personal income tax receipts totaled $717.3 million and were $109.4 million or 13.2% below the estimate. More than the entirety of the monthly shortfall is in the non-withheld portion of the personal income tax: payments associated with annual returns ($94.4 million or 18.0%), quarterly estimated payments ($22.0 million or 20.5%), and trust payments ($13.9 million or 64.0%). These negative variances were slightly offset by above estimate collections in withholding ($12.3 million or 1.8%) and the miscellaneous category ($4.2 million or 35.0%) and lower than anticipated refunds ($5.2 million or 1.0%).

OBM believes that most of the income tax shortfall is due to tax year 2015 non-wage income falling short of the expectation that was built into the income tax forecasts for fiscal year 2016. Clearly there was also some portion of the shortfall that was due to the processing of tax payments being slightly slower than expected, so that some of those payments were booked in May rather than April. As of this writing, May collections for annual return and trust payments are already about $16 million above estimate. Based on payment patterns from last May, OBM expects that annual return and trust collections combined could end May $30 million over estimate. Had this "spillover" into May not occurred, the April income tax shortfall would thus have been around $79 million.

One of the reasons that OBM believes that lower than expected non-wage income is responsible for weak April income tax collections is that there is some evidence that some other states are experiencing similar results. California's Legislative Analyst Office (LAO) reports that California also had a shortfall in estimated payments and annual return payments, and also an overage in refunds. Connecticut's legislative Office of Fiscal Analysis (OFA) has also reported a significant drop in nonwage income and in income tax owed on that income, compared with a year ago.

Year-to-date receipts totaled $6,444.7 million and were $201.3 million or 3.0% below the estimate. Negative variances in all personal income tax components have contributed to the year-to-date shortfall, particularly payments associated with annual returns ($122.1 million or 16.6%) quarterly estimated payments ($25.5 million or 3.1%), trust payments ($11.3 million or 21.6%), and the miscellaneous category ($6.5 million or 7.2%). After experiencing larger negative variances earlier in the fiscal year, withholding collections ($23.4 million or 0.3%) and refunds ($13.4 million or 0.8%) are now only slightly below the year-to-date estimates.

FY2016 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	$687.8	$700.1	$12.3	$6,950.8	$6,927.4	($23.4)
Quarterly Est.	$107.3	$85.3	($22.0)	$833.4	$807.9	($25.5)
Trust Payments	$21.7	$7.8	($13.9)	$52.3	$41.0	($11.3)
Annual Returns & 40 P	$524.8	$430.4	($94.4)	$736.4	$614.3	($122.1)
Other	$12.0	$16.2	$4.2	$90.3	$83.8	($6.5)
Less: Refunds	($502.0)	($496.8)	$5.2	($1,710.4)	($1,723.8)	($13.4)
Local Distr.	($24.9)	($25.8)	($0.9)	($306.8)	($306.0)	$0.8
Net to GRF	**$826.7**	**$717.2**	**($109.4)**	**$6,646.0**	**$6,444.6**	**($201.3)**
Detail may not add to total due to rounding						

On a year-over-year basis, April 2016 GRF income tax collections were $505.0 million or 41.3% below April 2015 collections. All components, excluding the miscellaneous category, declined from April 2015 collections with 60% of the decrease attributable to payments associated with annual returns ($304.0 million or -41.4%). Withholding declined $27.3 million (-3.7%) from the same month of the previous fiscal year, while refunds increased $119.6 million (-31.7%). Lower quarterly estimated payments ($43.8 million or -33.9%) and trust payments ($-16.4 million or 67.7%), slightly offset by growth in miscellaneous collections ($5.9 million or 57.2%), combined to create the year-over-year decline.

Through April, year-to-date income tax receipts were $714.2 million or 10.0% below the same point of the previous fiscal year. Almost the entirety of the decline resulted from increased refunds ($368.7 million or -27.2%) and lower payments associated with annual returns ($328.4 million or -34.8%). Growth in withholding ($82.9 million or 1.2%) partially offset decreases in quarterly estimated payments ($71.7 million or -8.1%), trust payments ($9.6 million or -19.0%), and miscellaneous collections (-$4.4 million or 5.0%).

It is to be expected that income tax collections have turned negative relative to fiscal year 2015. The decline in collections is the result of the reductions in withholding tax rates and overall tax rates, and the increase in the small business (pass-through entity) deduction adopted by H.B. 64, the biennial budget bill. The impact of the 3.1% withholding rate reduction has already been felt for the last eight months, since it went into effect on August 1. The impact of the 6.3% reduction in tax rates and the increase in the small business deduction began to be felt in January, as taxpayers made their fourth quarter estimated payments and also began to file income tax returns for tax year 2015, and was also felt over the last three months, as one can see from the fact that refunds increased from last year by $115 million in February, $98 million in March, and $120 million in April. The rate reduction is also responsible, at least in part, for the decline in annual return payments.

As previously noted, GRF net income tax collections are now $714.2 million, or 10.0%, below last year's level. This year-to-date change is now greater than the anticipated $490.0 million, or 5.8%, decrease that was estimated to include the impact of all the H.B. 64 and S.B. 208 income tax reductions.

Non-Auto Sales and Use Tax

April non-auto sales and use tax collections totaled $789.2 million, and were $3.5 million (0.4%) below the estimate. This was the third consecutive shortfall in non-auto collections, although the amount was small enough to be within the forecast margin of error for this tax. Unlike March, none of the April shortfall is due to Medicaid managed care (MHIC) sales tax collections.

After the February through April shortfalls, year-to-date collections are still above estimate, but the overage has shrunk to $3.9 million (0.1%). Year-over-year growth is now $301.9 million, or 4.2%. As stated in the economic overview, national economic data would suggest that consumer spending, and with it the non-auto sales tax, should continue to grow in the remainder of fiscal year 2016. The conditions supporting consumer spending growth are strong labor market fundamentals (job and wage growth), low energy costs, and low overall inflation. However, as also noted in the economic overview, some of the consumer benefit of lower energy costs seems to have gone into increasing the savings rate. It remains to be seen whether the saving rate will continue to climb from its current 5.4%, or hold steady at about this level.

Auto Sales Tax

The auto sales tax fell short of the estimate by $12.3 million (9.5%) in April. Last month's issue of this report mentioned that the drop in national light vehicle sales to a 16.5 million unit pace in March caused concern that April sales tax collections would fall short of the estimate and decline from last year, and both of those conjectures came true. However, vehicle sales rebounded to an annualized pace of 17.3 million in April, almost equal to the February pace. This should have a positive impact on May collections.

Even with the April shortfall, auto sales tax collections remain $26.2 million, or 2.4%, above estimate for the year. Collections have increased by $38.5 million, or 3.6%, from the same point in the previous fiscal year.

Commercial Activity Tax

April collections of commercial activity tax (CAT) were $1.6 million, or $4.2%, below estimate. The year-to-date shortfall thus increased to $13.0 million, or 1.3%.

The April shortfall was small enough that no inferences about collections in the May-June period can really be drawn from April's performance. The final quarterly payment of the CAT is due on May 10, as is the annual minimum tax payment. The May payment will determine how fiscal year 2016 collections will end, relative to estimate. May is also when a large share of annual tax credits are claimed, adding uncertainty to the revenue picture.

As of the end of October, GRF CAT collections were $32.1 million below estimate, so collections have been $19.1 million above estimate over the last six months. OBM still feels that the most likely explanation for the early fiscal year 2016 shortfall and subsequent turnaround in CAT collections is that after very high amounts of credits claimed against the CAT in the first quarter, that pace slowed substantially in the second and third quarters. In the fourth quarter credit amounts are expected to be high again, given the timing of credit applications and granting of certificates. As such, by year's end it is possible that the shortfall will be larger than the current $13.0 million.

Despite the lingering shortfall compared to estimate, year-to-date GRF CAT revenues have increased substantially from fiscal year 2015. Year-to-date collections are up by $323.7 million, or 48.1% from the same point in the previous fiscal year. This increase is due to the law change in H.B. 64 (the biennial budget bill) that increased the GRF share of total CAT receipts from 50 percent to 75 percent, as the needed funds for property tax replacement payments have declined.

All funds CAT revenues were $2.2 million below estimate in April. For the year, all funds CAT revenues are $17.4 million below estimate. The percentage shortfall is the same as for the GRF, -1.3%. Growth in all funds CAT revenues is negative for the year, at -1.3%. This is the same percentage as the year-to-date variance, which logically follows from the fact that the estimate for all funds collections was essentially unchanged from fiscal year 2015 (for fiscal year 2016 as a whole, estimated CAT revenues are only 0.1% above fiscal year 2015 actual collections).

Financial Institutions Tax

The vast majority of the financial institutions tax (FIT) collections for the fiscal year are paid in three estimated payments, due January 31, March 31, and May 31. Because payments are due on the last day of the month, collections are unpredictably split between the month the payment is due and the following month. As noted on last month's issue of this report, combined January and February FIT collections were $8.5 million, or 9.8%, above estimate.

For April, FIT collections were $2.0 million below estimate, but combined March-April collections were $5.7 million, or 8.3%, above estimate. For the year, FIT collections are now $19.2 million, or 13.6%, above estimate.

The FIT is a relatively new tax – this is only the third fiscal year of its existence – based on the "Ohio equity capital" of banks and other financial institutions. As such, there is little past performance to examine in seeking an explanation of the variances for the year. Given the overages so far, one might expect the third estimated payments to exceed the estimate, although even that is not certain given the very brief history of this tax. It is likely, though, that FIT collections will exceed estimate for the fiscal year.

Cigarette and Other Tobacco Products Tax

Cigarette and other tobacco product (OTP) tax collections were $4.9 million (6.6%) above estimate in April. For the year-to-date, collections are above estimate by $28.2 million (3.8%).

As mentioned in previous issues of this report, the overage in this tax category is being driven entirely by cigarette sales. The "floor stocks" tax enacted in H.B. 64 in conjunction with the tax rate increase has fallen about $18 million short of the estimate, and the revenue from the other tobacco products (OTP) tax (levied on such products as cigars, snuff, etc.) has dropped from fiscal year 2015, and is not contributing to the overage either.

Revenues from the cigarette and OTP taxes have increased from last year by $154.3 million, or 25.1%. Revenues from the cigarette portion of the tax, not counting the floor stocks tax, have increased by $137.5 million, or 24.5%. The cigarette tax rate increased by 28.0% due to the law change in H.B. 64 (the tax went from $1.25/pack to $1.60/pack). The fact that revenues have increased by close to the same percentage as the tax rate increase shows that the reduction in packs of cigarettes purchased has been small, only about 3%.

GRF Non-Tax Receipts and Transfers

GRF non-tax receipts totaled $1,012.8 million in April and were $75.0 million (8.0%) above the estimate. Federal grants accounted for more than all of the April variance, finishing $88.3 million, or 9.7%, above estimate. As mentioned in the first section of this report, both the GRF overspending in Medicaid and the associated overage in federal grants were the result of hospital assessment revenues being delayed, which necessitated higher than expected GRF spending and higher federal grant receipts. This spending and revenue overage should be reversed over the last two months of the fiscal year.

The other significant variance in non-tax revenues was in the license and fee category. As mentioned in last month's report, March license and fee revenue was $29.3 million over estimate, as the payments were ahead of what the estimates had anticipated. The March overage, as expected, was followed by an April shortfall. However, the April shortfall was $17.4 million, so March and April collections combined were $11.9 million over estimate, resulting in an $11.4 million overage for the year to date.

OHIO B2B ADVANTAGE

Anchor is a non-profit, mission-driven lender dedicated to providing financing to America's communities.

Since 1996, Anchor has represented the Ohio Development Services Agency's (ODSA) Regional 166 Loan Program. This loan fund provides Ohio's growing businesses with short-term, below-market, fixed-rate financing. This program is a proven economic development tool for manufacturing clients creating jobs and expanding their business within Ohio's borders...

JOB CREATION COMPONENT

Promoting economic development is one of the key Agency objectives, and as such, job creation and/or retention will be taken into consideration. Priority will be given to eligible projects with higher wage and job creation commitments or projects located in a Priority Investment Area.

Use of proceeds fixed assets only	Purchases, expansion, new construction, renovations, leasehold improvements, long-term machinery & equipment.
Maximum loan amount	$500,000 (up to 75% of total project costs).
Collateral	Mortgage and/or lien on assets being financed.
Interest rates	Fixed rate of 2/3 WSJ Prime determined at the time of closing.
Maturity	Machinery & equipment: up to 10 years. Real estate: up to 20 years (no penalty for early pay off).
Eligibility	Business must operate for profit and be related to industry, commerce, distribution, or research activities (i.e. wholesale business-to-business). Refinances and final-point-of-purchase (i.e. retail) projects are not eligible.
Origination fee	1.5% of loan amount, plus up to $2,500 in closing costs.

ANCHOR
CAPITAL FOR A COMMON GOAL

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ANCHORSBA.COM

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BUILDING 1, SUITE 100
PERRYSBURG, OHIO 43551

REAL ESTATE ADVANTAGE

Anchor is a non-profit, mission-driven lender dedicated to providing financing to America's communities.

Administered by Anchor since 1996, the SBA's CDC/504 loan program provides today's growing businesses with long-term, below-market, fixed-rate subordinate financing. This program is a proven success and win-win for both borrower and lender alike by enabling them to...

DECREASE RISK: SBA subordinates lien on fixed assets financed leaving bank partner with 50% loan-to-value (LTV).

DECREASE EXPOSURE: Only the unguaranteed portion counts against your regulatory loan limit.

DECREASE DOWN PAYMENT: 10% injection allows borrowers to preserve working capital for future business growth.

INCREASE COMPETITIVENESS: The flexibility to help attract new prospects and keep current customers.

Use of proceeds fixed assets only	Purchases, expansion, new construction, renovations, leasehold improvements, long-term machinery & equipment.
Maximum loan amount up to 40% of total project	$5.0 million ($5.5 million for small manufacturers).
Collateral	Second mortgage or lien on assets being financed. 20% and greater owners must personally guarantee (includes real estate holding company).
Interest rate	Bank portion is determined by lender. SBA 2nd lien is fixed and determined at the time of sale (approx. 45 days after closing).
Maturity no accelerated payments	Machinery & equipment: 10 years. Real estate: 20 years.
Eligibility (must be less than) $15 million tangible net worth $5 million average net income	Business must operate for profit and fall within the size standard. Loans cannot be made to businesses engaged in speculation or investment in rental real estate.
Origination fee	Approximately 3.5% of SBA loan amount, plus up to $2,500 in closing cost...all of which is financed within SBA 504 loan.

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COMMONLY ASKED QUESTIONS REGARDING THE SBA 504 DIRECT LOAN PROGRAM

How do some of the specialty properties such as hotels or assisted living fit under the owner-occupied criteria that are required?	They are in the business of providing short term needs. If the agreement were long term – they would be apartments and not qualified. Also, you generally need to look to "value added" services so that it is not just investment property.
Is a 504 commitment letter adequate for a legal lending limit exemption?	Yes. This letter represents a commitment to lend/take-out, with the exception of an adverse change stipulation that allows the SBA to hold funding for unforeseen/unusual changes. The FDIC considers the guarantee to be unconditional since the adverse change clause would only occur because of circumstances outside of the bank's control. (12 CFR Sec. 32.3)
What are the SBA's environmental and title insurance requirements?	Title insurance is required on the SBA's portion and is coordinated by Anchor's closing agent. An environmental investigation is required on all commercial property in which the SBA has a security interest. A records search with risk assessment (RSRA) may be used in place of a phase 1. However, if the study reports the property as "high risk" a phase 1 will be required.
What is Anchor's underwriting criteria?	The CDC will perform its own underwriting of the loan, just as the bank does. Generally, in addition to making sure the loan meets all of the eligibility requirements – determine the anticipated cash flow coverage, review and analyze the projections and other normal underwriting activities.
Is it typically required for the 504 borrower to personally guarantee the first mortgage loan?	Generally yes, because they are required to guaranty the SBA's 2nd, however it's not mandatory on the 1st.
What is the level of risk and can you give examples where Anchor is unwilling to purchase their share of a project?	The authorization includes a clause which would allow the SBA to not fund if there is "unremedied adverse change." The likelihood of this being used is actually very small. However, there was one example where a borrower passed away and the ownership of the company was yet unsettled. This was an adverse change until it was remedied.
After the 504 loan funds, what ongoing SBA requirements are there?	The 504 loan is direct take-out financing. Once funded, the borrower will remit payments directly on each of the separate loans - bank 1st lien and SBA 504 loan. The borrower/guarantors are required annually to submit tax returns and updated PFS. The bank however has no annual SBA reporting requirements or ongoing commitments. Much like participatory financing, the bank should work with Anchor regarding insurance proceeds, easements, and any other borrower concerns/requests that may come up. In the event of default, the SBA is a 2nd lien holder separate from the bank's 1st lien and therefore, will determine its own liquidation procedures apart from the bank.
I have run into situations where the 504 does not allow certain costs to be included in the project and will not lend on them, such as goodwill or FF&E. Why is this and how does it get financed?	The 504 loan program is only available for fixed asset costs. As such, goodwill can not be included in the project costs and thereby financed by the SBA 504 loan. The bank could lend for ineligible project costs outside of the scope of the SBA. Typically, seller financing is also acceptable for these costs.
If the borrower wants to construct a building that will cost approximately $2.5 million for the building and the land is paid for, will the land be considered as the borrower's 10% equity into the project?	Yes. And actually if the land was owned for more than 2 years – it could be injected at the appraised value rather than the original cost. The project may include land, no matter how long it has been held. The value of the land will be at cost if acquired within two years of application. If the land was acquired prior to that time, the value also will be at cost unless the small business submits a professional appraisal acceptable to SBA establishing a different value. The appraisal should include the sales history of the property during the last five years. The appraisal must be conducted by a party other than the borrower, its associates, or the present mortgagee.

THE POWER OF BEING UNDERSTOOD

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BUSINESS CREDITS AND INCENTIVES

FREE MONEY

2016

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Agenda

- Introductions
- Benefits and qualifiers
- Comprehensive view
- Best Practices
- Common Pitfalls
- WOTC

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INTRODUCTIONS

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- Our credits and incentives practice is a collaboration of federal, state and local tax professionals focused on making the most of available business incentives
- With you today
  - Mark S. Blawas, MST
    Chicago/Columbus – (740) 972-4976
    Mark.Blawas@rsmus.com

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BENEFITS AND QUALIFIERS

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Benefits to your company

- A variety of programs exist at the federal, state and local levels to **reward** businesses for **investing in growth – FREE MONEY**

- Participation in credits and incentives programs may provide significant bottom line benefits including
  - Permanent tax savings
  - Reduced effective tax rate
  - Enhanced cash flow
  - Reduced start-up or operational costs
  - Increased shareholder value

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Qualifying Events for Business Incentives/Triggers

- Create new business operations
  - Construction/purchase/lease of new facilities
  - Purchase of new machinery/equipment
  - Infrastructure improvements
  - Hiring and training of new employees
- Expand, realign or relocate existing facilities
  - Construction/purchase/lease of new/expanded facilities
  - Purchase of new machinery/equipment
  - Infrastructure improvements
  - Hiring/retention of new/existing employees
  - Training of new/existing employees
- Maintain existing facilities
  - Retaining existing workforce
  - Hiring due to employee turnover
  - Training of new and existing employees

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False notions about incentives

- "We don't have any locations in an enterprise zone"
- "We don't hire 'those kinds' of people"
- "We are not expanding right now"
- "We don't do much training, it's all on-the-job"
- "Don't the programs only target manufacturers?"
- "We are not looking to relocate"

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Business Incentives Opportunities

Common Credits and Incentives

Tax Incentives
- Sales & Use tax exemptions/refunds
- Federal and state EZ Credits
- Federal and state research and development credits
- Capital investment tax credits

Hiring Incentives
- Wage rebates, job creation grants and credits, employment related tax incentives
- WOTC/WtW
- State point-of-hire credits
- Hiring and employee screening assistance

Training Benefits
- Training grants for prospective training expenditures
- Development and implementation of training programs through state agencies
- Training tax credits (retroactive or prospective)

Non-Tax Incentives
- Infrastructure grants/assistance
- Low cost financing for capital expenditures
- Utility discounts
- Waiver of permit fees
- Expedited permits
- Free or discounted land/building

Property Tax Relief
- Negotiate real and personal property tax exemptions
- Structure Industrial Revenue Bonds (IRBs) for favorable property tax treatment
- Secure Tax Increment Financing (TIF) arrangements
- Property tax abatement

Green Incentives
- Energy efficiency/GHG reduction incentives and credits
- Incentives for LEED-certified buildings
- §179D deductions
- R&D and Manu. incentives for green products
- Incentives for production of green products

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COMPREHENSIVE VIEW

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Comprehensive view

- Generally, three types:
  - Statutory
  - Discretionary
  - Negotiated Legislative

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Statutory

- General Characteristics
  - Clear requirements, available to all qualifying companies
  - May require pre-approval or prior certification
  - Claimed on a tax return
  - Offset federal or state income and franchise tax liabilities
  - May offset sales and use, property or employment taxes
- Statutory Examples
  - Employment credits
  - Investment credits
  - Research and development credits
  - Enterprise or empowerment zone credits

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Discretionary

- General Characteristics
  - Must be secured or pre-approved in advance of qualifying activities taking place
  - Allowed by statute, benefits may range based on facts
  - Boundaries are less clear, allocated at the discretion of the controlling government agency
  - May be customized to company's specific facts
- Discretionary Examples
  - Economic development credits
  - Property and income tax abatements
  - Forgivable loans
  - Machinery and infrastructure grants
  - Financing options
  - Industrial revenue bonds
  - Hiring and retention credits

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Negotiated Legislative

- General Characteristics
  - Involves creation of new programs
  - Very large projects
  - Involves multiple parties
- Negotiated Examples
  - High-profile, high-impact projects

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BEST PRACTICES

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Are you realizing the full benefit?

87% of companies are not confident that they are collecting all available incentives

(source: *Area Development Magazine*)

- Common indicators of missed opportunity:
  - Process started too late
  - Opportunities vary and often are not widely publicized
  - Identification can be daunting
  - Overpromise on investments or jobs creates potential for missed goals
  - Failure to timely and accurately comply with reporting and maintenance procedures

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Best practices

- Getting in front of the triggers of Incentives
  - Must secure the incentives
    - Before any public announcements
    - Before they sign a lease or purchase contract
    - Before hiring new employees
    - Before acquiring new equipment
    - Before training tales place
    - Training plans

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COMMON PITFALLS

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Common pitfalls to avoid

- Notice the fine print (claw-backs are no fun)
- Understand the compliance burden (cost-benefit)
- How realistic are the thresholds?
  - E.g., 35% must live in a zone or be disadvantaged
- Mandatory use of local vendors, hiring standards etc.
- Legal entity (common paymaster versus operating entity)
- Inability to use the benefits
- Apportionment Limitations
- Prevailing Wage
- Public Information and disclosure rules
- Lobbying rules

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WOTC

Introduction to WOTC

- The Work Opportunity Tax Credit (WOTC) is a federal income tax benefit administered by the U.S. Department of Labor (DOL) for employers who hire individuals from specified target populations
- WOTC reduces a business's federal tax liability by up to $9,600 *per eligible employee*
- **Eligible employees must be certified and claims filed within 28 days of hiring date**
- IRS recently issued guidance to extend the deadline for all 2015 hires until June 29, 2016
- WOTC has been extended through December 2019

WOTC objective

- WOTC joins other workforce programs that help provide incentives for workplace diversity and improve access to good jobs for American workers
- The main objective of the program is to enable individuals to
  - become employed
  - earn a steady income
  - become contributing taxpayers

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Credit amounts

- New hires in targeted groups may be eligible for credit based on hours worked, wages paid and/or qualifying status
- Maximum allowances, per employee:
  - $1,200 for summer youths
  - $2,400 for qualified adults, based on hours (MIN 120 hours)
  - $5,600 for qualified unemployed veterans
  - $9,000 for qualified long-term family assistance recipients (two-year employment period)
  - $9,600 for qualified disabled veterans
- Accumulated WOTC credits can carry forward if annual claim exceeds federal tax liability

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How does WOTC work?

The tax credit employers can claim depends on the target group of the individual hired, the wages paid to that individual in the first year of employment, and the number of hours that individual worked.

- If the individual **works at least 120 hours**, the employer may claim a tax credit equal to 25% of the individual's first year wages, up to the maximum tax credit.
- If the individual works at least 400 hours, the employer may claim a tax credit equal to 40% of the individual's first year wages, up to the maximum tax credit.

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Overview of targeted groups

- Long-term family assistance recipients
- Qualified recipients of Temporary Assistance for Needy Families (TANF)
- Qualified veterans
- Qualified ex-felons
- Designated community residents (i.e., federal empowerment zones and rural renewal counties)
- Vocational rehabilitation referrals
- Summer youth employees
- Supplemental Nutrition Assistance Program (SNAP) recipients
- Supplemental Security Income (SSI) recipients

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Example of potential benefit

- ABC Company hires an average of 100 employees a year
  - According to the Bureau of Labor Statistics, one in six individuals receives public assistance
  - Screening data identifies closer to 20% of employees are eligible for WOTC (20 people)
  - Average credit is $2,000 per employee
  - Gross credit = $40,000

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RSM screening options

As Easy as 1, 2, 3

- 1-800 Call center
- WOTC Web Portal
- Paper-based (mail or fax)

or

- Combination of above, our centralized system combines all methods into 1 tracking system

Note: The IRS now accepts electronic signatures for the WOTC forms!! This means no forms need to be mailed in, so using the **WOTC web portal & call center** is easier & faster.

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Call center approach

- Minimal burden placed on hiring staff
  - Give employee three minutes of privacy to call our bi-lingual call center
- Impartial conversation
  - Staff congratulates new hire, informs that screening is conducted "per government requirements"
- Discussion focuses on household needs, maintains dignity of employee
- Confirmation number is provided to return to hiring manager – Ensure we screen all new employees
- If qualified, form 8850 is generated and e-signed by employee – Virtually no forms to submit!

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WOTC Web Portal approach

- Minimal burden placed on hiring staff
  - Give employee three to 5 minutes of privacy to enter their data on our website
- Confirmation number is provided to return to hiring manager – Ensure we screen all new employees
- If qualified, form 8850 is generated and e-signed by employee – Virtually no forms to submit!

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WOTC Web Portal – Easy (5 minutes of the employees time) – E-Signature and no 8850 to send in!

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Fields indicated with a red asterisk(*) are required.

1 * First Name: Middle Name: * Last Name:
* Social Security Number: Telephone Number: ( )
* Street Address w Apt #:
* City: * State: Please Select * Zip: County:
Email:

Please be complete - Your participation in this program will help aid future job creation programs

2 Please enter your date of birth: (mm/dd/yyyy)

3 Have you participated in a training program with your local State Workforce Agency and do you have a copy of a certificate for the employer work opportunity credit?
Yes No

4 Were you referred to an employer by a Vocational Rehabilitation Agency approved by a state? Yes No
– or, by an Employment Network under the Ticket to Work Program? Yes No
– or, by the Department of Veterans Affairs? Yes No

5 Are you a Veteran of the U.S. Armed Forces? Yes No

6 Are you a member of a family that received Supplemental Nutrition Assistance Program (SNAP, Food Stamps) benefits for the past six(6) months? Yes No
– or received benefits for at least 3 of the past 6 months and are no longer receiving them? Yes No

7 **Are you a member of a family that received Temporary Assistance for Needy Families (TANF) assistance for a least the last eighteen(18) months?** Yes No
– or a member of a family that received benefits for any eighteen(18) months beginning after August 5, 1997 and the earliest 18-month period beginning after August 5, 1997, ended within the past two(2) years? Yes No
– or did your family stop being eligible for TANF assistance within two(2) years Yes No

8 Do you receive Supplemental Security Income (SSI) benefits for any month ending within the past sixty(60) days? Yes No

9 Have you been convicted of a felony or released from prison for a felony in the last year? Yes No

10 Have you worked for this employer before? Yes No

v76kG8

Under penalties of perjury, I declare that I gave the above information to the employer on or before the day I was offered a job, and it is, to the best of my knowledge, true, correct, and complete.

Please enter the 6 symbols as they appear, by doing so I am agreeing that the data on this page identifies me and that the symbols represent my signature as legally valid and binding as if I had signed the document with ink on paper in accordance with the Uniform Electronic Transactions Act (UETA) and the Electronic Signatures in Global and National Commerce Act (E-SIGN) of 2000. I waive my right to a written signature for the purposes of generating WOTC forms from this web application for employment to **ACADEMI Consulting Services LLC**.

Submit Form

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WOTC Processing Center – Proof Needed

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Thank you for your submission.
Supporting documentation may be required. If so, it will be requested by your supervisor.

Supporting Documents may Include:

- Veteran -DD-214 or Discharge Papers
- FL 21-802 (Issued ONLY by DVA. Certifies a Veteran with a service connected disability)
- Ex-Felon -Parole Officer's Name or Statement
  -Correction Institution Records
  -Court Records Extracts
- Vocational Rehabilitation Agency- Contact Info needed
- Designated Community Resident- proof of address
  (D.L or utility bill matching address provided)

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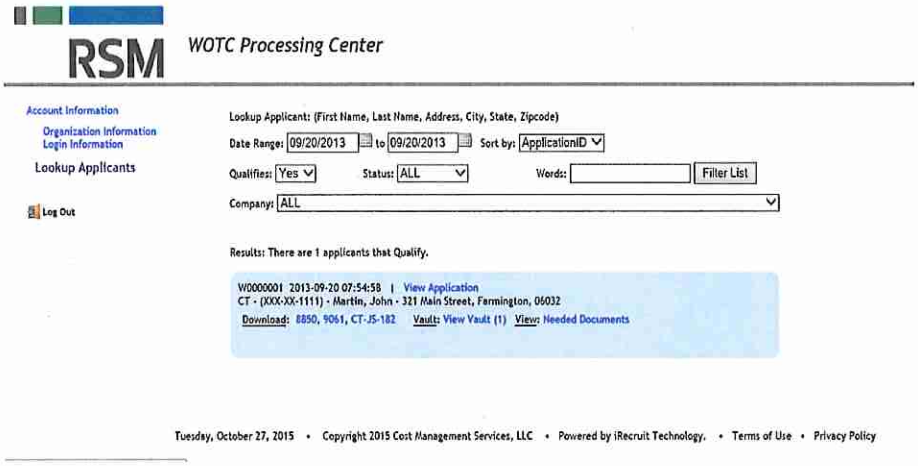
WOTC Processing Center – Real time Results



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C&I Sheet for Year-End Planning

- Estimated number of annual hires including turnover
- Estimated planned capital investment in the next three years by location
- Any new leases or lease extensions coming up in the next year
- Estimated net new head count growth over the next three years by location
- Estimated annual training budget – over the next three years by location
- Do any of the companies have an acquisition in process or in the near future? Which company or companies?
- NOTE: To maximize the State, Federal, Utility, and Local cash incentives and credits we must secure these and they must be approved by the relevant authorities before the company hires, makes announcements, executes a lease, purchases equipment or starts training employees.

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THANK YOU FOR YOUR TIME AND ATTENTION

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QUESTIONS AND ANSWERS?

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TO: OMA Tax Policy Committee
FROM: Rob Brundrett
SUBJECT: Tax Public Policy Report
DATE: June 8, 2016

Overview

The General Assembly wrapped up their first half work with a flurry of activity the last full week in May. Among the major issues passed shortly before midnight was a package that would address the near term issues with the state's unemployment compensation debt.

The General Assembly is not expected to return to action until after the November elections. Although the Senate has scheduled two weeks of session in late September / early October. The lame duck session after the general election is predicted to be extremely busy.

The Administration will begin to prepare its final budget in the fall. There is concern there will be a budget hole to the tune of $1 billion that will need to be filled.

State Financial Condition

First-quarter real GDP growth slowed to 0.5% from 1.4% in the fourth quarter. Recent economic data suggest that growth will pick up during the year.

Ohio nonfarm payroll employment increased by 18,300 jobs in March and the unemployment rate drifted higher to 5.2% as the labor force swelled.

The consumer sector remains strong, while manufacturing continues to face headwinds and construction remains in an uptrend.

Tax Legislation

2020 Tax Policy Study Commission

The Study Commission continues to hold monthly hearings to discuss the various aspects of Ohio's tax climate. The OMA has testified twice before the committee. First the OMA testified on general tax conditions and impacts on manufacturing. The second time, the OMA testified specifically on tax credits.

Co-chairman Jeff McClain from the House is to be replaced by new House Ways and Means Chairman Tim Schaffer. The committee is expected to be active over the course of the summer.

The Study Commissions plans to have some recommendations for the next budget. The OMA tax committee should consider providing a white paper to the Study Commission with its suggestions and observations.

House Bill 9 – tax expenditure review committee

HB 9 was introduced by Representative Boose (R-Norwalk). The bill creates a Tax Expenditure Review Committee that would periodically review existing and proposed tax expenditures. The Senate had a watered down verision of this committee operate during the budget process. The OMA testified several times in front of the committee to discuss why certain tax expenditures were important and why others should be removed from Ohio's tax code. The bill was voted out of the Senate on May 25. However due to an amendment dealing with controlling board, the bill has been held up.

Senate Bill 88 – CAT credit
Sponsored by Sen. Charleta Tavares (D-Columbus) would create tax credits, including CAT credits, for the employment of individuals who have been convicted of criminal offenses. The bill has not had any hearings. Nor is it expected to move.

House Bill 102 – CAT credit
House Bill 102 sponsored by Reps. Niraj Antani (R-Miamisburg) and Hearcel Craig (D-Columbus), would provide a bid preference for state contracts to a veteran-owned business and would have authorize a personal income and CAT credit for a business that hires and employs a veteran for at least one year. However the sponsors introduced a substitute version of the bill at its first hearing removing the CAT provisions from the bill. The bill only received a first hearing for sponsor testimony last year.

House Bill 176 – CAT credit
House Bill 176 sponsored by Reps. Hall (R-Millersburg) and O'Brien (D-Bazetta) creates the Gaseous Fuel Vehicle Conversion Program. The bill allows a credit against the income or commercial activity tax for the purchase or conversion of alternative fuel vehicle. It reduces the amount of sales tax due on the purchase or lease of a qualifying electric vehicle by us to $500. It applies the motor fuel tax to the distribution or sale of compressed natural gas. The bill also authorizes a temporary, partial motor fuel tax exemption for sales of compressed natural gas used as motor fuel. The bill was introduced in the previous General Assembly, but stalled in the legislative process. Earlier this year it was passed out of House Ways and Means Committee. The bill was re-referred to Finance Committee and voted out of committee last November.

House Bill 182 – JEDDs reorganization
House Bill 182 sponsored by Representative Schuring (R-Canton) would revise the law governing the creation and operation of joint economic development districts (JEDDs) and enterprise zones. Amongst the changes the bill establishes a procedure permitting the owner of a business operating in the unincorporated territory of a JEDD to apply for exemption from the JEDD income tax on behalf of the business and its employees. The Senate finished their work at the end of May and the bill was passed by both Chambers.

Senate Bill 198 – non-resident municipal income tax
SB 198 was introduced by Senator Jordan (R-Ostrander). The bill prohibits municipal corporations from levying an income tax on nonresidents' compensation for personal services or on net profits from a sole proprietorship owned by a nonresident. This bill has opposition from Ohio's cities and villages. The bill had one hearing last fall. It is not expected to move.

House Bill 232 – seller use tax collection
HB 232 was introduced by Representatives Grossman (R-Grove City) and Scherer (R-Circleville. The bill prescribes new criteria for determining whether sellers are presumed to have substantial nexus with Ohio and therefore required to register to collect use tax to allow sellers presumed to have substantial nexus rebut that presumption, and to

require a person, before the person enters into a sale of goods contract with the state, to register, along with the person's affiliates, to collect use tax. The bill has not had a hearing.

Senate Bill 235 – increased value property tax
Senate Bill 235 was introduced by Senators Beagle (R-Tipp City) and Coley (R-Liberty Township) and would exempt from property tax the increased value of property on which industrial or commercial development is planned until construction of new commercial or industrial facilities at the property commences. The bill was passed by the Senate in late May and is supported by local chambers of commerce.

Senate Bill 246 / House Bill 398 – change the CAUV computation
Senator Hite (R-Findley) and Representative Hill (R-Zanesville) introduced companion bills to require that the computation of the capitalization rate for the purposes of determining CAUV of agricultural land be computed using a method that excludes appreciation and equity buildup and to stipulate that CAUV land used for a conservation practice or enrolled in a federal land retirement or conservation program for at least three years must be valued at the lowest of the values assigned on the basis of soil type.

The bill is proving to be controversial due to the fact that agriculture land is already taxed at a reduced rate compared to residential and commercial property. The Senate and House bills have had a combined six hearings to vet the issue.

Senate Bill 264 / House Bill 454 – permanent holiday sales tax
Last year Ohio passed a pilot project to exempt sales tax during one week of back to school shopping. There is interest in making that a permanent tax break. The General Assembly quickly passed the Senate version earlier this year.

Senate Bill 288 – income tax for pass through entities reform
SB 288 was introduced by Senator Eklund (R-Munson Township). The bill revises the law governing how taxes on income from pass-through entities is to be reported and paid by the entities and their investors. The bill has had two official hearings.

Senate Bill 289 / House Bill 475 – increase the motion picture tax credit
The motion picture tax credit companion bills sponsored by Senator Patton (R-Strongsville) and Representative Schuring (R-Canton) would expand the current motion picture tax credit. The bills would be applied against the current credit against the commercial activity tax. A version of HB 475 was amended into HB 390 and passed.

Senate Bill 310 – capital appropriations
SB 310 was introduced by Senator Oelslager (R-Canton). The capital bill is expected to move quickly. It is scheduled to leave the Senate this week after only one week of hearings. It is expected to have strong bi-partisan support. The bill provides funding for capital projects across the state and in all the legislative districts. The bill was quick passed and signed by the Governor in May.

House Bill 343 – remove sale tax on temp employees
HB 343 was introduced by Representatives Romanchuk (R-Mansfield) and Young (R-Leroy Township). The bill would exempt employment services and employment placement services from sales and use tax.

This is a priority tax issue for manufacturers who in Ohio must pay sales tax on their temporary employees. The OMA has strongly advocated for this tax relief for manufacturers over the past two budget cycles.

The bill was finally voted out of House Committee during an extremely busy May.

The OMA and members Whirlpool and Cargill testified in support of the measure last fall.

House Bill 355 – employee misidentification
Rep. Wes Retherford (R – Hamilton) has introduced a bill, HB 355, that would turn the Bureau of Workers' Compensation (BWC) into an agency that would police businesses in their classifications of employees and independent contractors.

Under the bill, the BWC would be authorized to enter and inspect all of the offices and job sites maintained by an employer who is the subject of a complaint that an employer is misclassifying an employee. The BWC would be authorized to issue stop work orders and fines.

For many many years, organized labor has attempted to create a de facto Department of Labor at the state level. That's what this one is after. It is a really bad idea.

There have been two interested stakeholder meetings regarding the bill. The OMA has weighed in on several occasions regarding the provisions in the bill.

House Bill 390 – unemployment compensation pay off
During the May legislative session HB 390 morphed into a catch all for tax and finance provisions. Two bills important to manufacturers were amended into HB 390, and one stand alone provision was also included.

The bill incorporated the portions of HB 473 that required voter approval before a county may levy a new utilities services tax. The amendment was in response to a controversy that occurred in Hamilton County when the commissioners attempted to levy the tax without the input of the voters.

Second the bill incorporated HB 475 and expanded the motion picture tax credit. The General Assembly okayed the amendment to House Bill 390 which expanded Ohio's current motion picture tax credit. The action, would have increased the total amount of credits that may be awarded from $20 million per fiscal year to $75 million per fiscal year. The vast majority of the claimed credits are taken against the commercial activity tax (CAT).

The legislature scaled back the proposal, opposed by the OMA, by almost half by reducing the amount of allowable credits to $40 million per fiscal year and disallowing any carryover of credits if less than $40 million is awarded in any year.

OMA opposes carve outs and credits to the CAT as they threaten its broad-base and low rate.

Finally the General Assembly used HB 390 as the vehicle to address the state's unemployment compensation debt. The General Assembly agreed to a deal with the intention to eliminate the state's recession-era unemployment compensation debt to the federal government. The move supported by the OMA and other business allies will potentially save Ohio's businesses more than $400 million in FUTA penalties. Without this fix employers were staring at a possible $168 per employee penalty to be paid in 2017.

The new plan will borrow from the state's unclaimed funds to pay off the debt in November 2016. Then employers will repay the state-backed loan by paying a per employee surcharge in 2017. This surcharge is estimated to be $50. Overall, the plan will save employers around $70 per employee in 2017.

This bill is on Governor Kasich's desk for signature.

While the General Assembly addressed the short term debt issue, the new plan does not address the long term solvency of the system due to the structural imbalance that contributed to the heavy borrowing.

House Bill 394 – unemployment compensation reform

HB 394 was introduced last November by Representative Sears (R-Monclova Township). The bill is a priority for the OMA and its business community allies. Ohio is one of two states that continue to carry debt owed to the federal government due to its insolvent unemployment trust fund. The bill offers a balanced package of reforms to pay off the debt and build solvency in the system to prevent another major solvency issue in the next recession.

The bill has had multiple hearings in the House Insurance Committee. The OMA and its business allies hired a national expert to testify and set the record straight regarding the provisions of the bill to the General Assembly.

House and Senate leaders have established a six person work group to tackle the issue with a promise of passing the bill in the lame duck session after the elections. The working group is committed to passing a form of HB 394 as was reiterated during the HB 390 debate.

House Bill 467 – unemployment compensation debt

HB 467 was introduced by Representative Butler (R-Oakwood). The bill establishes a loan from the Budget Stabilization Fund to the Unemployment Compensation Fund, to require the Director of Job and Family Services to recommend a program to incentivize the purchase of private unemployment insurance, and to require a study on the solvency of the Unemployment Compensation Fund. However, while the bill finds a way to pay off the debt prior to November 2016, it does nothing to address the long term solvency issues of the fund.

House Bill 473 – utility service tax levy

HB 473 was introduced by Representative Amstutz (R-Wooster). The bill would require voter approval before a county may levy a new utilities services tax among other issues. The bill is in response to a controversy that occurred in Hamilton County when the commissioners attempted to legally levy the tax without the input of the voters. The bill was amended into HB 390.

House Bill 491 – CAT tax credit pilot program

HB 491 was introduced by Representative Anielski (R-Walton Hills). The bill creates a five-year pilot program whereby taxpayers with facilities in this state with activated foreign trade zone status may claim a nonrefundable commercial activity tax credit equal to the amount redeployed by the taxpayer to job creation or other specified projects.

The bill has had two hearings.

Tax News

Tax Foundation Rankings – Ohio 19th in State & Local Tax Rates

According to recently released data from the Tax Foundation, Ohio's combined state and local tax rate is 7.14%. That ranks us 19th among the states (higher ranking = lower rates).

The highest rate in the land? Tennessee at 9.46%. The lowest? Alaska at 1.78%.

The foundation calculates a population-weighted average of local sales taxes as of January 1, 2016 in an attempt to give a sense of the average local rate for each state.

CAT Amicus

The OMA worked with allies in filing an amicus brief on behalf of the state. The issue revolves around three online/catalogue retailers who have failed to pay CAT although they do business in the state of Ohio. The coalition is producing a brief outlining the importance of the CAT to Ohio and Ohio businesses. A real threat exists if these types of companies are excluded from the CAT; the base erodes and more pressure is put on the low rate, resulting in a possible rate increase. These cases were argued before the Court on May 3, 2016.

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Ohio S.B. 288 Proposes to Change Taxation of PTEs and Their Owners

By Mark A. Engel, Esq.
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Under current law, pass-through entities (PTEs) and their owners are subject to multiple and varied tax filing and payment provisions. Senate Bill 288 proposes to require all PTEs to file either a composite return or an informational return, and to make tax payments with respect to certain owners included in the composite return. The bill also changes the rate at which tax is computed. If enacted, the changes made by the bill would apply to taxable years ending on or after January 1, 2017.

Under current law, PTEs may elect to file a composite return on behalf of their nonresident owners pursuant to R.C. 5747.08(D). PTEs not making that election must withhold from distributions paid to their nonresident owners and pay a tax on those distributions. In both cases, while the individual owner may claim a credit for any tax paid on its behalf if it files an individual return, the applicable tax rates are 4.997 percent in the case of a composite return, and 5 percent in the case of the withholding tax. On neither return may the PTE take advantage of the $250,000 business income deduction.

S.B. 288 attempts to simplify the filing process and reduce the cash implications to the individual owners. The composite return provisions of R.C. 5747.08(D) are repealed, as are the existing provisions of R.C. 5747.40 through 5747.43 relating to the withholding tax. In their place, new R.C. 5747.41 provides that all PTEs having nexus with this state must file a composite return on behalf of its investors and compute and pay the tax due unless either all the investors in the PTE are residents, or none of the investors is either (i) a PTE, or (ii) a person otherwise subject to the personal income tax. In addition, each PTE having nexus with this state shall file an informational return unless (x) the PTE is required to file a composite return; (y) none of the investors is subject to the personal income tax; or (z) all the investors are resident individuals and the entity did not claim any business credits. Each return must contain identifying information for each investor, investor ownership and distribution percentages, whether the investor is exempt from certain calculations (detailed below), the allocation percentages of any business credit earned by the PTE, and any other information required by the tax commissioner.

Any nonresident individual investor included on a return may still file an individual return, and no resident individual investor is excused from filing an individual return by virtue of being included on the PTE return.

In the case of a composite return, the PTE must compute the tax due with respect to its director investors that are PTEs, estates, trusts, or nonresident individuals.

As set forth in new R.C. 5747.40(A), the PTE starts with the distributive shares of each investor, and then makes a number of adjustments. These adjustments include expenses or losses related to transactions involving related members; guaranteed payments and compensation made to investors who, at any time during the taxable years owned at least 20 percent of the ownership interest of the PTE; interest, and dividends associated with various obligations that are otherwise exempt from federal taxation; and gains or losses resulting from the sale or exchange of public obligations. The result is then multiplied by the rate applicable to taxable business income in R.C. 5747.02(A)(4)(b).[1]

Investors included on the composite return are not entitled to the personal exemption, and may claim a distributive share of the business tax credits specified in R.C. 5747.40(D) and (E). This provision is no different from existing law.

If an investor provides documentation to the PTE that the investor is neither subject to the personal income tax, nor is a PTE, the PTE is not required to include these calculations for that individual on the return. If a PTE receives that documentation and provides it to the tax commissioner, then the PTE is not subject to any interest or penalties for failing to include amounts relating to that investor on the return or its payment of estimated taxes. Under proposed R.C. 5747.41(D), however, a PTE is subject to any additional tax, penalties and interest if the tax commissioner finds the PTE has not reported or paid the correct tax of the investors included on the return. This provision does not excuse any investor from payment of the tax owed by that investor.

Proposed R.C. 5747.42 provides that a PTE shall make payment of any tax by means of a single check, provided that no payment is required if the total tax due is $250 or less. The PTE must also make estimated payments, and any investor included on the composite return may claim a refundable credit for the tax paid on its behalf.

Proposed R.C. 5747.43 provides that a PTE is not excused from filing returns and paying the tax if it retires from business or dissolves. In addition, if a PTE sells its business or stock of merchandise, or quits its business, any taxes required to be paid prior to that time are immediately due and payable and a final return must be filed within 30 days after the filing due date of the entity’s final federal tax return.

There are other minor conforming revisions made by the law. One of the more significant such changes involves the amendment of R.C. 5747.21 and its allocation and apportionment provisions. Under current law, reference is made to the provisions contained in the franchise tax

[1] The bill makes reference to the rate found in division (A)(2)(b) of section 5747.02; this reference appears to be in error.

chapter. The bill eliminates the reference and expressly incorporates all the language previously found under the franchise tax law.

Similarly, the bill expressly incorporates the definition of a PTE that was previously found in the franchise tax law. The definition includes a subchapter S corporation, or a partnership, limited liability company or any other person other than an individual, trust, estate, or disregarded entity if the corporation, partnership, LLC, or other person is not taxed as a corporation for federal income tax purposes.

It does not appear that a PTE filing a composite return is entitled to consider the business income deduction provided by R.C. 5747.01(A)(29)(b) (formerly division (A)(31)(b)) in the calculation of the tax liability of investors included on the return.

If passed, the provisions would be effective with any taxable year ending on or after January 1, 2017.

Ohio Legislative Service Commission

Jean J. Botomogno

Fiscal Note & Local Impact Statement

Bill: H.B. 343 of the 131st G.A.

Date: May 31, 2016

Status: As Reported by House Economic and Workforce Development

Sponsor: Reps. Romanchuk and Young

Local Impact Statement Procedure Required: Yes

Contents: To exempt sales of employment services and employment placement services from the sales and use tax beginning July 1, 2017

State Fiscal Highlights

STATE FUND	FY 2017	FY 2018	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	Loss of $164 million	Loss of $169 million in FY 2019. Losses are likely to grow in ensuing years
Expenditures	- 0 -	- 0 -	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2016 is July 1, 2015 – June 30, 2016.

- The bill reduces the sales and use tax base, and thus decreases sales and use tax revenue starting in FY 2018.
- State sales and use tax receipts are deposited in the GRF which would bear the majority of the revenue loss. Any reduction to GRF tax receipts would also reduce the amount distributed to the Local Government Fund (LGF) and Public Library Fund (PLF) as these local funds receive distributions from GRF tax receipts.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2016	FY 2017	FUTURE YEARS
Counties, municipalities, townships, and public libraries (LGF and PLF)			
Revenues	- 0 -	Potential loss	Loss of $5.6 million in FY 2018. Losses are likely to grow in ensuing years
Expenditures	- 0 -	- 0 -	- 0 -
Counties and Transit Authorities			
Revenues	- 0 -	Potential loss	Loss of $41.5 million in FY 2018. Losses are likely to grow in ensuing years
Expenditures	- 0 -	- 0 -	- 0 -

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- The bill reduces revenue from local permissive county and transit authority sales taxes. Those taxes share the same base as the state sales and use tax.
- Receipts from the state sales and use tax are deposited in the GRF. A share of GRF tax revenues is distributed under permanent law to the LGF and PLF. Thus, any reduction to GRF tax receipts would also reduce the amount distributed to the LGF and PLF.

Detailed Fiscal Analysis

Under current law, the sale or use of services is generally not taxable unless expressly made subject to the sales tax; and employment services and employment placement services have been explicitly subject to the tax since 1993. Employment services are transactions in which a service provider furnishes personnel to perform work under the supervision or control of the purchaser. The personnel may be assigned to the purchaser for a short period of time or on a long-term basis, and are paid by the service provider or a third party that supplies the personnel to the service provider. Generally, if employment services are supplied by a third party to a service provider, and then by the service provider to a purchaser, only the transaction between the service provider and the purchaser is taxable. H.B. 343 would exempt all taxable employment and employment placement services beginning July 1, 2017, thus affecting sales tax revenue starting in FY 2018.

Sales taxes on employment services are generally remitted by businesses with North American Industry Classification System (NAICS) codes starting with 5613. These would include employment placement agencies (NAICS 561311), executive search services firms (NAICS 561312), temporary help services firms (NAICS 561320), and professional employer organization firms (NAICS 561330). Additionally, certain users of employment services and employment placement services pay use taxes directly to the state. Roughly $155 million was collected from the state sales and use tax on employment and employment placement services in FY 2015, according to the Department of Taxation.

Separately, data from the U.S. Census Bureau suggest revenue from establishments in the administrative and support services industries (NAICS 561) which declined during the last economic recession grew about 6% per year, on average, in the most recent years.[1] Assuming a revenue growth rate of 3% for firms in the employment and employment placement services in Ohio, the potential revenue from the sales and use tax on employment services might be about $169 million in FY 2018 and $174

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[1] Nationwide, revenue growth at businesses in the Administrative and Support Services sector (NAICS 561), which includes firms relevant to the bill, was about 6% per year between 2011 and 2014, according to the 2014 Service Annual Survey and administrative data from the Economic Census.

million in FY 2019, and possibly higher depending on the growth of the industry. The amounts above would also correspond to the potential revenue loss from H.B. 343, which is likely to increase in future years, though the magnitude of the increases would depend on the business cycle.[2]

Receipts from the state sales and use tax are deposited into the GRF. Under permanent law, a portion of GRF tax receipts is subsequently transferred to the Local Government Fund (LGF) and the Public Library Fund (PLF). Under permanent law, the GRF would receive 96.68% of sales tax revenue, and the LGF and the PLF 1.66% each.[3] Thus, the GRF loss would be about $164 million in FY 2018. Reduced distributions to the LGF and PLF would be about $2.8 million for each local government fund. In FY 2019, estimated revenue losses from the bill would be about $169 million to the GRF, and $2.9 million each for the LGF and the PLF.

Local permissive county and transit authority sales taxes share the same tax base as the state sales tax, and are approximately 24.5% of state sales tax revenues. Thus, the revenue loss to local governments from permissive county and transit authority sales and use taxes from H.B. 343 would be about $41.5 million in FY 2018 and $42.7 million in FY 2019. Adding those amounts to the potential revenue losses to the LGF and the PLF, revenue reductions to local governments would total $47.1 million in FY 2018 and $48.5 million in FY 2019, and are likely to grow in future years.

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[2] Though a small share of nonfarm payroll employment (2.1% in 2014), the temporary help industry plays an outsized role in workforce adjustment during recessions and recoveries. Generally, during recessions, companies increase their use of temporary help, lengthen existing temporary help assignments, or reduce hiring from their pool of temporary workers in response to economic uncertainty. The reverse tends to occur in periods of economic recovery.

[3] Under temporary provision in H.B. 64, the budget act for the current biennium, the PLF share would be 1.70%, instead of 1.66%.

CONTENT AND OPERATION

Repayment of current federal unemployment debt

(Section 741.10)

As a result of Ohio carrying an unpaid balance for advances (essentially, loans) from the federal government for the payment of unemployment benefits, Ohio's employers have been subject to a graduated loss of the tax credit against the federal unemployment tax (see "**Background – federal advances and employer tax credit reductions**," below).

Loan from unclaimed funds

The bill requires, not later than September 15, 2016, the Director of Job and Family Services (JFS Director), who administers Ohio's unemployment compensation system, to certify to the Director of Budget and Management (OBM Director) the balance of federal unemployment advances. The bill requires the OBM Director not later than September 20, 2016, to request the Director of Commerce transfer cash from unclaimed funds to the Unemployment Compensation Fund in the amount certified by the JFS Director as a one-time loan for the purpose of paying unemployment benefits. The bill requires the Director of Commerce to make that transfer upon receipt of the request. The amount transferred must be credited to the Mutualized Account (the Mutualized Account is a separate account in the Unemployment Compensation Fund that is primarily used to pay benefits when an individual employer's account cannot be charged for those benefits for a variety of reasons).

The bill requires the OBM Director, in consultation with the JFS Director, to establish a schedule for the repayment of the loan. The loan must be repaid not later than February 28, 2018.

The JFS Director, not later than September 30, 2016, must deposit the amount transferred into the Unemployment Compensation Fund from unclaimed funds with the U.S. Secretary of the Treasury to eliminate the balance of amounts advanced.

Temporary contribution rate increase to repay the loan

The bill requires each experience-rated contributory employer (an employer with four or more consecutive calendar quarters of unemployment benefits charged against the employer) to pay an increased contribution rate for contributions due in 2017 in an amount, to be determined by the JFS Director and OBM Director, that generates an amount not greater in the aggregate than the amount necessary to repay the loan from unclaimed funds. The Directors must determine the amount of the increase on a flat-rate basis. The increased amount, if not paid when due, must be treated the same as delinquent contributions under continuing law.

The bill requires the Ohio Treasurer of State to establish and maintain a separate account known as the "Loan Account" within the Unemployment Compensation Fund. The bill requires the JFS Director to deposit amounts received as a result of the increased contribution rate within the Loan Account and credit the amounts to the Mutualized Account. The JFS Director must repay the amount transferred as a loan from unclaimed funds from amounts within the Loan Account. If any amounts remain in the Loan Account after the repayment of the loan, the bill requires the amounts be deposited with the U.S. Secretary of the Treasury to the credit of Ohio's account within the federal Unemployment Trust Fund. The bill requires that the amount transferred from the Loan Account be charged to the Mutualized Account.

Background – federal advances and employer tax credit reductions

Unemployment compensation derives its origins from a federal excise tax levied on most employers in the country.[1] Under federal law, an employer may receive a tax credit of almost 90% if the employer makes specified contributions to an "approved" state unemployment compensation system. Additionally, the federal government pays a share of a state's administrative costs to run an approved state program. Approval, however, involves state adherence to federal law requirements and voluminous U.S. Department of Labor regulations. The FUTA tax credit for employers can be reduced under certain circumstances.

Federal law permits a state's governor, or the governor's designee (in Ohio, the JFS Director) to apply to the U.S. Secretary of Labor to receive three-month "advances" for the payment of unemployment benefits if the amount of funds in a state's account in the federal Unemployment Trust Fund is insufficient to pay those benefits.[2] Ohio began borrowing advances from the federal government in January 2009.[3] FUTA requires states to repay federal advances according to specified deadlines. If a state does not repay as required, the basic penalty is a "graduated" loss of the federal tax credit for all employers in the state.[4] Ohio employers are currently paying an increased FUTA tax

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[1] 26 United States Code (U.S.C.) 3301 *et seq.* and 42 U.S.C. 501 *et seq.*

[2] 42 U.S.C. 1321; 20 Code of Federal Regulations (C.F.R.) 606.4; and R.C. 4141.43(F).

[3] National Conference of State Legislatures, *Unemployment Insurance: State Trust Fund Loans* (May 19, 2016), http://www.ncsl.org/research/labor-and-employment/state-unemployment-trust-fund-loans.aspx (accessed May 23, 2016).

[4] 26 U.S.C. 3302(c)(2).

rate. If the advances are repaid before November 10, 2016, the 2016 FUTA tax rate will revert back to the pre-advance level.[5]

Contribution rate increase to pay principal on federal advances

(R.C. 4141.25; Section 741.20)

If, as of the computation date (July 1), Ohio has an outstanding balance on federal unemployment advances, the bill requires all experience-rated contributory employers to be subject to a contribution rate increase, as determined by the JFS Director, in an amount up to ½ of 1% for the purpose of eliminating the principal of any outstanding advance balance.

The bill incorporates this increase into the continuing law formula used to calculate the minimum safe level tax (MSL tax). The MSL tax is a continuing law contribution rate increase imposed when the Unemployment Compensation Fund is below a "minimum safe level," in essence, the balance required in the Fund to pay benefits during a moderate recession. The purpose of the MSL tax is to rebuild the Fund to a safe level. Under continuing law, the MSL tax is calculated by taking a flat-rate percent by which the normal contribution rate for an employer is increased (the amount of the increase varies depending on how far below the minimum safe level the Fund is as of the computation date) and then entering that flat-rate into a formula based on experience. The bill requires the increase created by the bill, if it applies, to be added to the continuing law MSL flat-rate percent increase, and that sum is then required to be calculated pursuant to the continuing law MSL tax formula based on experience. The bill requires amounts received as a result of the increased contribution rate to be credited 50% to the individual employer's account and 50% to the Mutualized Account.

If the bill's contribution rate increase is imposed, the bill requires it to remain in effect for each calendar year thereafter until the earlier of the following:

(1) The principal on any outstanding advance balance has been eliminated.

(2) The JFS Director determines that the maximum FUTA tax credit an employer may receive pursuant to federal law will be reduced for that calendar year.

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[5] U.S. Department of Labor, *Historical FUTA Credit Reductions*, http://workforcesecurity.doleta.gov/unemploy/docs/reduced_credit_states.xlsx (accessed May 23, 2016) and U.S. Department of Labor, *Current Year Potential FUTA Credit Reductions*, http://oui.doleta.gov/unemploy/docs/potential_credit_states_2016.xlsx (accessed May 23, 2016).

The bill specifies that it is the intent of the General Assembly to repeal this increase in contribution rates in future legislation adopting long-term reforms to the Unemployment Compensation System.

Surcharge to pay interest on federal advances

(R.C. 4141.251)

Beginning October 1, 2016, if the JFS Director pays interest charged pursuant to federal law on federal unemployment advances from the Unemployment Compensation Interest Contingency Fund (see "**Unemployment Compensation Interest Contingency Fund**," below), the bill requires the JFS Director to require each contributory employer to pay a surcharge. The JFS Director must determine the amount of a surcharge to assess against each contributory employer that generates an amount not greater in the aggregate than the amount sufficient to repay the Fund for the amount of that interest paid. The JFS Director must determine the surcharge amount on a flat rate basis.

The bill requires the JFS Director to collect the surcharge at the same time and in the same manner as contributions due under continuing law. If a surcharge is assessed, the JFS Director must provide notice to each employer subject to the surcharge, either upon the quarterly contribution report due from each employer under continuing law or by other appropriate notice, a separate listing of the surcharge amount due. The bill prohibits surcharge payments from being used to satisfy an employer's contribution obligations under continuing law.

If an employer payment is insufficient to pay the amount of contributions due under continuing law and the amount of the surcharge due, the bill requires the payment to be first applied against the surcharge due. The JFS Director then must apply the remaining amounts from a partial payment in the following order:

(1) Against any mutualized contributions due;

(2) To the credit of the employer's individual account;

(3) Against any interest, forfeiture, and fines due.

If a surcharge is not paid when due, the bill requires it to be treated the same as delinquent contributions under continuing law and any forfeiture or interest payments associated with the collection of the surcharge be deposited consistent with forfeiture and interest associated with contributions under continuing law.

Unemployment Compensation Interest Contingency Fund

The bill creates the Unemployment Compensation Interest Contingency Fund in the state treasury. The Fund must be used to pay interest charged pursuant to federal law on federal unemployment advances. Any interest earned on the money in the Fund is to be retained in the Fund. The bill requires the JFS Director to deposit amounts received pursuant to the surcharge in the Fund.

Correctional Institution Inspection Committee (CIIC)

(R.C. 107.31, 107.34, 181.22, and 5145.162)

Employees

The bill specifies CIIC may employ professional, technical, and clerical employees as are necessary for CIIC to be able to successfully and efficiently perform its duties. All employees are in the unclassified service and serve at CIIC's pleasure. The bill authorizes CIIC to contract for the services of persons who are qualified by education and experience to advise, consult with, or otherwise assist CIIC in the performance of its duties. Finally, the bill provides that any decision related to the duties of employees or related to employment shall be made by a majority of the CIIC members unless a majority of the members is unable to decide a matter, in which case the chairperson decides the matter.

Under current law, CIIC may employ a director and any other nonlegal staff, who are in the unclassified service of the state, as necessary for CIIC to carry out its duties and may contract for the services of whatever nonlegal technical advisors are necessary for CIIC to carry out its duties. Current law requires that the Attorney General act as legal counsel to CIIC. The chairperson and vice-chairperson of the Legislative Service Commission (LSC) must fix the compensation of the Director of CIIC. The Director, with the approval of the Director of LSC, must fix the compensation of other CIIC staff in accordance with a salary schedule established by the Director of LSC. Contracts for the services of necessary technical advisors must be approved by the Director of LSC.

Advisory boards

The bill requires a staff representative assigned by CIIC, rather than the Director of CIIC, to serve on two advisory boards. Under current law, the Director of CIIC serves on the Criminal Sentencing Advisory Committee and the Office of Enterprise Development Advisory Board. The bill requires, instead, that CIIC assign a staff representative to serve on these advisory boards.

Chairman of the Board
WILLIAM E. SOPKO
President, William Sopko & Sons Co., Inc.

President
ERIC L. BURKLAND

The Ohio Manufacturers' Association

5/16/2016

The Honorable Ryan Smith
Chairman
Ohio House Finance Committee
77 S. High St., 14th Floor
Columbus, OH 43215

RE: House Bill 475 – Motion Picture Tax Credit

Dear Chairman Smith:

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

According to Ohio Department of Taxation Fiscal Year 2014 Commercial Activity Tax Returns data, manufacturers made up the second-largest group of CAT taxpayers, representing 10.2 percent of all taxpayers (retail trade is the largest). And, manufacturers pay 26.8 percent of the state's total – far more than any other group (in terms of CAT revenues based only on the 0.26 percent CAT rate for gross receipts in excess of $1 million). Manufacturers are concerned that any new carve-outs, exemptions, or credits could provide strain on the CAT forcing an increase in its rate.

When it was first enacted, there were few exclusions from the CAT and only four credits. The tax expenditure associated with those exclusions in 2009, the first year the tax was fully phased in, was approximately $300 million. Those exclusions were built into the tax as enacted and the 0.26 percent rate was established with those exclusions in mind.

In its fiscal year 2014 tax expenditure report, the Department of Taxation lists a larger number of exclusions and credits to the CAT. The total cost of those expenditures is over $600 million! Thus, in just 10 years, additional credits and exclusions were added to the tax that doubled the amount of the tax expenditure.

House Bill 475 expands Ohio's current motion picture tax credit by increasing the total amount of credits that may be awarded from $20 million to $75 million per fiscal year and authorizes unallocated credit amounts to be carried forward. The credit can be taken against one of three taxes including the commercial activity tax. Expanding a credit against the CAT gives us pause.

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We urge the General Assembly to stay strong against expanding any current credits and exemptions. Otherwise, we risk following the path of the former ineffective and exemption riddled corporate franchise tax with high rates.

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

Sincerely,

Robert A Brundrett

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

CC: The Honorable Kirk Schuring

House Bill 394: Selected Major Provisions at Glance

House Bill 394 offers a reasonable, balanced package of unemployment insurance law reforms designed to address the current insolvency of Ohio's Unemployment Insurance Trust Fund (UI Trust Fund). The bill contains a combination of unemployment tax, benefit and integrity provisions that in the aggregate will improve solvency by tightening alignment of benefit costs and contribution revenues while building a significant fund balance, over time, that will be sufficient to avoid subjecting Ohio to increased federal taxes and penalties related to unemployment insurance.

Among the major reforms proposed in the legislation are the following:

- **Temporary Increase in State Unemployment Tax Base.** HB 394 would increase the state unemployment tax base from $9,000 to $11,000 when the UI Trust Fund balance is below 50 percent of the 1.0 Average High Cost Model solvency level and continue the increase until the UI Trust Fund reaches 1.0 Average High Cost Model. The state tax base will be reduced back to $9,000 when the UI Trust Fund equals or exceeds the 1.0 AHCM solvency level. If the balance dips below 50 percent of the solvency level in future years, the tax base will automatically return to the $11,000 level.
- **Reduction of Number of Potential Weeks of Unemployment Insurance.** HB 394 would change the determination of the total number of weeks of unemployment compensation potentially available to twice a year, based on Ohio's seasonally adjusted three-month total unemployment rate, before January and June. A sliding scale would set the number as low as 12 weeks when the rate is 5.5 percent or below, and up to 20 weeks if the rate is 9 percent or above. Ohio currently uses a sliding scale ranging from 20 to 26 weeks.
- **Temporary Freeze on the Maximum Weekly Benefit Amount.** HB 394 would effectively freeze maximum weekly benefit dollar amounts at a level not to exceed 50 percent of the statewide average weekly wage for the first year that the UI Trust Fund was less than the Minimum Safe Level (MSL), and would continue those maximums until the year after the UI Trust Fund was at or above the MSL.
- **Dependency.** To align with the majority of states, HB 394 would repeal Ohio's current dependency provision that increases the weekly benefit amount provided to claimants who have higher wages and dependents.
- **Drug Testing.** HB 394 provides language under which the Ohio Department of Job and Family Services may (a) request information of applicants for unemployment compensation about the results of past drug tests, (b) conduct drug tests for controlled substances, and (c) disqualify individuals within the narrow limitations of federal law.

HB 394 addresses a number of additional issues that impact UI Trust Fund solvency, including constructive lockout exceptions in labor disputes, standards for determining just cause for termination and quits without just cause, coordination of unemployment compensation benefits with Social Security retirement benefits, enhanced fraud penalties and collection, and improved non-fraud overpayment collection, among others. Collectively, the HB 394 reforms position Ohio in line with surrounding states and states with whom we compete for investment and jobs.

# # #

The Case for Unemployment Insurance Reform in Ohio

EXECUTIVE SUMMARY

Introduction

Ohio's unemployment insurance (UI) system is in a state of crisis. The Ohio Unemployment Insurance Trust Fund, which is funded by employers and pays out benefits to qualifying jobless workers, is insolvent. The benefits the system pays out are substantially out of balance with the tax receipts it takes in to fund it. The system is nearly $775 million in debt to the federal government – money it borrowed to keep paying benefits during and after the Great Recession of 2008. As a result, Ohio's system is dangerously unstable and a deterrent to economic development. Reforms are urgently needed to update and strengthen Ohio's UI program for the benefit of Ohio's employers, employees and economy. Most specifically, Ohio's Unemployment Insurance Trust Fund is not likely to recover solvency before the next recession unless the state takes action to pay off its outstanding federal unemployment compensation loan balance and better aligns benefits with contributions to build a balance.

How the System Works[1]

The Social Security Act of 1935 (SSA) created a federal-state unemployment insurance program to (a) provide temporary, partial wage replacement to individuals out of work, generally through no fault of their own, and (2) promote economic stability by maintaining a steady flow of dollars throughout the economy even when there is widespread unemployment.[2] The UI system historically has been forward funded – i.e., a sufficient positive balance is needed in the state unemployment trust fund to avoid having to borrow to pay benefits resulting from a reasonably foreseeable economic downturn.

To be eligible for unemployment benefits, jobless workers must demonstrate "workforce attachment," usually measured by a work requirement (e.g., number of weeks of work) and/or a wage requirement (e.g., dollar amount of wages earned). Individuals also must be able, available and actively seeking work. Each state has a different formula for determining the amount of workforce attachment needed to obtain UI benefits from the state.

The UI program is a federal-state partnership conforming to federal requirements and administered by state agencies under state law. The Office of Unemployment Insurance Operations at the Ohio Department of Job and Family Services (ODJFS) administers Ohio's UI program. Administrative funds for ODJFS are allocated by the federal government from federal payroll taxes employers pay to the Internal Revenue Service.

[1] This section of the document borrows heavily from a U.S. Department of Labor publication, *Unemployment Compensation: Federal-State Partnership,* April 2015.
[2] http://www.bizfilings.com/toolkit/sbg/office-hr/managing-the-workplace/unemployment-benefits-system-info.aspx

Financing the Program

Unemployment compensation paid to unemployed workers is financed largely through both federal and state unemployment taxes paid by employers. Just three states – Alaska, New Jersey and Pennsylvania – collect UI taxes from employees.

UI taxes are based on various factors, including the wages employers pay their employees, the type and size of the business, and the number and amount of unemployment claims filed against the business.

- At the federal level, the Federal Unemployment Tax Act (FUTA) imposes a single flat rate payroll tax on the first $7,000 of wages employers pay each employee in a year. The current FUTA tax rate is 6.0 percent. However, employers can earn credits against their FUTA tax to reflect the state employment taxes they pay. Employers who pay their State Unemployment Tax Act (SUTA) taxes in a timely manner under an approved state unemployment compensation program can earn a credit of up to 5.4 percent against the 6.0 percent, resulting in an effective tax rate of 0.6 percent. These states are also eligible to receive federal grants to cover the costs of administering the program through federal appropriations. Additionally, funds from the FUTA-funded Federal Unemployment Account reimburse the state unemployment trust fund for 50 percent of charges for “extended” unemployment benefits when extended benefits are triggered by periods of high unemployment.

- At the state level, each state determines its own SUTA tax rates. Some states apply various formulas to determine the taxable wage base; others use a percentage of the state’s average annual wage; and a few simply follow the FUTA wage base of $7,000. In 2014, SUTA tax rates ranged from 0.0 percent to 2.6 percent for minimum rates, and from 5.4 percent to 10.89 percent for maximum rates. All but a handful of states’ wage bases exceeded the FUTA minimum requirement of $7,000. In 2014, Ohio’s SUTA base was $9,000, with a minimum contribution rate of 0.3 percent and a maximum contribution rate of 8.60 percent.

The state assigns or computes a specific individually determined UI tax rate for each employer annually. Every state uses some kind of “experience rating” system to determine the rate. Generally, the fewer the claims, the lower the rate the business pays in state UI taxes.

States lacking sufficient funds to pay their required unemployment benefits are authorized by Title XII of the SSA to request advances (i.e., loans) from the FUTA’s federal loan fund account, the Federal Unemployment Account. If not repaid, these loans carry interest that must be paid from sources other than the state UI trust fund.

Impact of the Great Recession

The Great Recession of 2008 was the nation’s longest and deepest since the Great Depression of the 1930s. A majority of states did not have sufficient balances in their state unemployment trust funds to pay benefits without requesting advances (i.e., loans) from the federal government to assure that unemployment compensation benefits were paid. Ohio was among the states hardest hit by the recession.

The Recession was much greater than expected, wiping out positive unemployment trust fund balances across the country and in Ohio. Automatic tax trigger provisions in Ohio law designed to address a milder recession were insufficient to meet the increased benefit payout. The size of the deficit after the Recession was too great to make up with benefit cuts or tax increases alone and even years after the Recession, benefit payments each year continue to be nearly as high as unemployment contribution revenue.

The unemployment insurance tax burden in Ohio generally increased as a result of the Recession as claims experience increased, the payroll against which experience was determined was reduced, and Ohio became subject to the FUTA offset credit reductions under federal law. As the economy slowly recovered with increased payrolls and reduced claims experience, experience rates improved and the average state unemployment insurance contribution was reduced. ***However, the FUTA tax has continued to increase as Ohio's Title XII loan has not been repaid.***

The impact in Ohio has been severe. Ohio's unemployment trust fund balance has been a negative number as of the end of the second quarter every year since 2009. ***Today, the Ohio Unemployment Insurance Trust Fund is insolvent.***

Responses to Insolvency

In response to the threat of insolvency, states have taken various actions to bolster tax revenue and reduce benefit outlay, including the following:

- Eliminating outstanding loan debt to the federal government by obtaining bank loans and/or using bonds to finance the debt through the private sector
- Enacting solvency legislation with a combination of benefit cuts and tax increases to eliminate Title XII debt and better align benefit costs with revenue over the long term
- Reducing the number of potential weeks of unemployment compensation
- Increasing tax bases
- Revising contribution rate schedules
- Reducing maximum weekly benefit amounts
- Enacting more aggressive integrity measures to identify and collect additional revenue through benefit overpayment recovery and contribution collection improvements

Ohio, however, is one of a small number of states with significant outstanding federal debt that have chosen not to enact solvency measures, instead allowing automatic FUTA penalties to continue to increase to provide the revenue needed to reduce the state's outstanding debt.

This is a dangerous path to follow. Failure to pay off a state's outstanding FUTA debt has costly consequences. Under federal law, if a state has an outstanding Title XII loan balance on January 1 for two consecutive years, and the full amount of the loan is not repaid by November 10 of the second year, the 5.4 percent FUTA tax credit for employers in that state will be reduced annually by 0.3 percent for each succeeding year until the loan is repaid. From the third year onward, additional reductions in the FUTA offset credit may be imposed. States that continue to have outstanding loan balances over five years in a row are subject to an even greater FUTA tax increase as a penalty for not having addressed solvency through increases in taxes and/or cuts in benefits.

Why Ohio Needs Unemployment Insurance Reform

Currently, Ohio ranks poorly on many important unemployment insurance program metrics. For example:

- Ohio's Unemployment Insurance Trust Fund is insolvent.
- Ohio's outstanding Title XII debt is approximately $775 million – nearly equal to the cost of unemployment insurance benefit payments for an entire year. Only California has a larger unpaid Title XII loan debt balance.
- Ohio is one of a small number of states with significant outstanding federal debt that have chosen not to enact solvency measures.
- Employers in Ohio currently pay higher total costs associated with unemployment compensation than employers in most other states, while benefit payment amounts in Ohio are higher than the national average. This makes Ohio a high-cost, high-benefit state.
- The FUTA tax paid by Ohio employers has continued to increase as Ohio's Title XII loan has not been repaid.
- Ohio is one of just four states currently subject to higher FUTA penalty rates and potentially subject to an additional Benefit Cost Rate (BCR) penalty in 2015 for having outstanding loan balances five years in a row and failing to address insolvency.
- Ohio failed to pay off the state's outstanding FUTA debt before November 10, 2015, triggering an additional reduction in the FUTA offset credit for employers in Ohio. This will result in Ohio employers paying higher FUTA taxes for 2015 – at least an additional $105 per employee, on top of the normal $42 per employee.

Ohio's UI trust fund is not likely to recover solvency before the next recession unless the state takes action to pay off its outstanding federal loan balance and better align benefits with contributions to build a balance in anticipation of the next recession.

Conclusion

Ohio's Unemployment Insurance Trust Fund must be made solvent before the next recession – not only to manage the repayment of Ohio's remaining Title XII loan balance but also to align benefit and contributions to build an adequate unemployment trust fund balance. The best solvency plan is one that also includes a focus on job creation because increased employment not only increases contributions but also reduces benefit payout. For that reason, rates also should be in line with surrounding states and states with which Ohio competes to attract and retain new business.

Unemployment insurance policy reform priorities should focus on eliminating the state's current unemployment trust fund debt, aligning benefit payout with contribution revenue, and building a balance in the unemployment trust fund sufficient to avoid triggering automatic FUTA tax increases that have significantly increased unemployment taxes for Ohio employers since the Great Recession of 2008. A vital first step for Ohio should be to pay off of the remaining Title XII loan balance to eliminate the FUTA tax increase as soon as possible.

# # #

Ohio Legislative Service Commission

Jean J. Botomogno

Fiscal Note & Local Impact Statement

Bill:	H.B. 491 of the 131st G.A.	**Date**:	May 23, 2016
Status:	As Introduced	**Sponsor**:	Rep. Anielski

Local Impact Statement Procedure Required: Yes

Contents: Authorizes a nonrefundable credit against the commercial activity tax for businesses that have facilities located in active foreign-trade zones

State Fiscal Highlights

- The bill authorizes a nonrefundable credit against the commercial activity tax (CAT) for expenditures incurred for specified purposes by businesses in Ohio foreign-trade zones.
- The bill reduces revenue from the CAT by an uncertain amount. The potential revenue loss would be dependent on the level of qualifying expenditures, and thus could be sizable.
- CAT revenue is deposited into the GRF and two local government funds used to reimburse school districts and other units of local government for lost revenue from the phase-out in tangible personal property taxes. Under current law, the GRF receives 75% of CAT revenue. The School District Tangible Property Tax Replacement Fund (Fund 7047) and the Local Government Tangible Property Tax Replacement Fund (Fund 7081) receive 20% and 5%, respectively.
- A loss of GRF revenue would reduce distributions to the Local Government Fund (LGF, Fund 7069) and the Public Library Fund (PLF, Fund 7065), which will receive 1.66% and 1.70%, respectively, of GRF revenue in FY 2017. The PLF share reverts to 1.66% in FY 2018 and thereafter under current law.

Local Fiscal Highlights

- The bill reduces revenue from the CAT. A share of CAT revenue is deposited into two local government funds used to reimburse school districts and other units of local government for lost revenue from the phase-out in tangible personal property taxes. Thus the bill reduces revenue to school districts and other local governments.
- A reduction in state distributions to the LGF and PLF would reduce revenues of units of local government and libraries.

Detailed Fiscal Analysis

The bill authorizes a nonrefundable credit against the commercial activity tax (CAT) for businesses that have one or more facilities located in active foreign-trade zones (FTZs) in Ohio.[1] FTZs are areas designated by the Foreign-Trade Zones Board (FTZ Board), pursuant to federal law, for the purpose of storing, exhibiting, assembling, manufacturing, and processing foreign and domestic goods. The credit equals expenditures incurred by the business during the tax period for any of the following purposes: (1) creating jobs at the FTZ facility, (2) providing training or continuing education to employees working at the FTZ facility, (3) making capital improvements to the FTZ facility including, specifically, installation of renewable energy resources, or (4) undertaking initiatives to increase exports to foreign nations of goods or services produced at the FTZ facility.

The credit would be claimed against the CAT due on the business's gross receipts derived from the FTZ facility, but expenditures exceeding the tax due cannot be claimed as a credit in future tax periods. The bill requires businesses claiming the credit to file records of the commitments and expenditures upon which the credit is based with the Tax Commissioner. If the Commissioner and the Director of Development Services determine that a business has failed to comply with the reporting requirement, the Commissioner may make an assessment against the business proportionate to the compliance failure. The assessment may include applicable penalty and interest.

LSC is unable to determine the commitments and expenditures of firms that may be used as the basis of the CAT credit. Therefore, LSC is unable to estimate the potential revenue loss from the bill. Though the revenue reduction is undetermined, it could be sizable depending on the level of qualifying expenditures incurred by firms in the FTZs and their current CAT payments, none of which can be ascertained by LSC.

CAT revenue is deposited into the GRF and two local government funds used to reimburse school districts and other units of local government for lost revenue from the phase-out in tangible personal property taxes. Under current law, the GRF receives 75% of CAT revenue; the School District Tangible Property Tax Replacement Fund (Fund 7047) and the Local Government Tangible Property Tax Replacement Fund (Fund 7081) are credited 20% and 5% of CAT receipts, respectively.

A portion of GRF tax revenue is distributed to the Local Government Fund (LGF, Fund 7069) and the Public Library Fund (PLF, Fund 7065), with the balance retained by the GRF. The LGF and PLF shares are 1.66% each under permanent law, but the PLF instead receives 1.70% during the current biennium. Reduced distributions to these two state funds would lower revenues of units of local government and public libraries.

HB0491IN.docx/lb

[1] The U.S. Foreign-Trade Zone Board reports eight active foreign-trade zones in Ohio with merchandise received and shipments between $10 billion and $25 billion in 2014.

California Supreme Court holds against Gillette in significant tax case

In a unanimous decision in *Gillette Co. v. Franchise Tax Board*, the California Supreme Court on December 31 held that the Multistate Tax Compact is not a binding reciprocal agreement among its members. Therefore, the California State Legislature had the authority to unilaterally eliminate the Compact's election, which allowed corporations to apportion their income to California based on a three-factor formula. By this decision, California's mandatory double-weighted sales factor formula enacted in 1993 to amend the Compact, was held to be a proper method to tax the income of corporate taxpayers. The typical result is that out-of-state corporate taxpayers who have significant in-state sales will incur higher taxes. Officials and others had projected that a decision against the state would ultimately cost California significantly more than US$1 billion in refunds.

The holding in Gillette reverses the 2012 California Court of Appeals decision in favor of the taxpayers, which held that the Compact's election provision was binding on member states. That decision triggered not only a flood of tax refund claims, but also the filing of similar litigation in several states and a quick succession of state withdrawals from the Compact, starting with California's in 2012. The crux of the matter centers on whether California's adoption of the Multistate Tax Compact in 1974, including its method of formulary apportionment of corporate income, is binding on the state, such that a member state is precluded from changing such method while it remained a member of the Compact.

One of the key provisions of the Compact allows a company to elect to apportion its total income to the state based on a three-factor apportionment fraction consisting of property, payroll and sales. In 1993, the California legislature changed that provision to a four-factor formula whereby it counted the sales factor twice. The result was that out-of-state corporations with relatively little presence in the state generally paid more income tax than they did prior to the 1993 law change. Gillette, an out-of-state company, naturally preferred the formula dictated by the Compact's election which gave equal weight to the company’s property, payroll and sales, and filed a refund claim to reflect that election. When California denied its refund claim, Gillette along with several other companies sued the state. (In 2012, as a result of this very case, California in fact pulled out of the Multistate Compact entirely.)

The legal issue centered on whether a tax compact such as this one is binding among its members, such that a member state does not retain a unilateral ability to amend the agreement while it remains a member. The focus of such determination centered essentially on the nature of what a compact is, and on what the legislative intent was at the time the Compact was adopted. In particular, did the legislature understand and intend to be bound to the Compact's terms at the time of enactment back in 1974?

In explaining its decision against the taxpayer, the court said it agreed with the amicus brief filed by the Multistate Tax Commission where it argued that the Compact failed to satisfy any of the classic indicia of a binding interstate compact as described in the case law. The court also devoted pages to discussing the Compact, which it said has no authority ordinarily associated with a regulatory body. The court also found that California's reenactment rule, which states that "a section of a statute may not be amended unless the section is reenacted as amended," did not bar the legislature's adoption of the double-weighted sales factor formula in 1993 because the rule does not apply to statutes amending others only by implication. As the court articulated, "Indeed, no express language of the Compact or any California enabling statute proscribes unilateral amendment of our own state law." The court believed that compacts can be unilaterally amended unless the compact explicitly states otherwise.

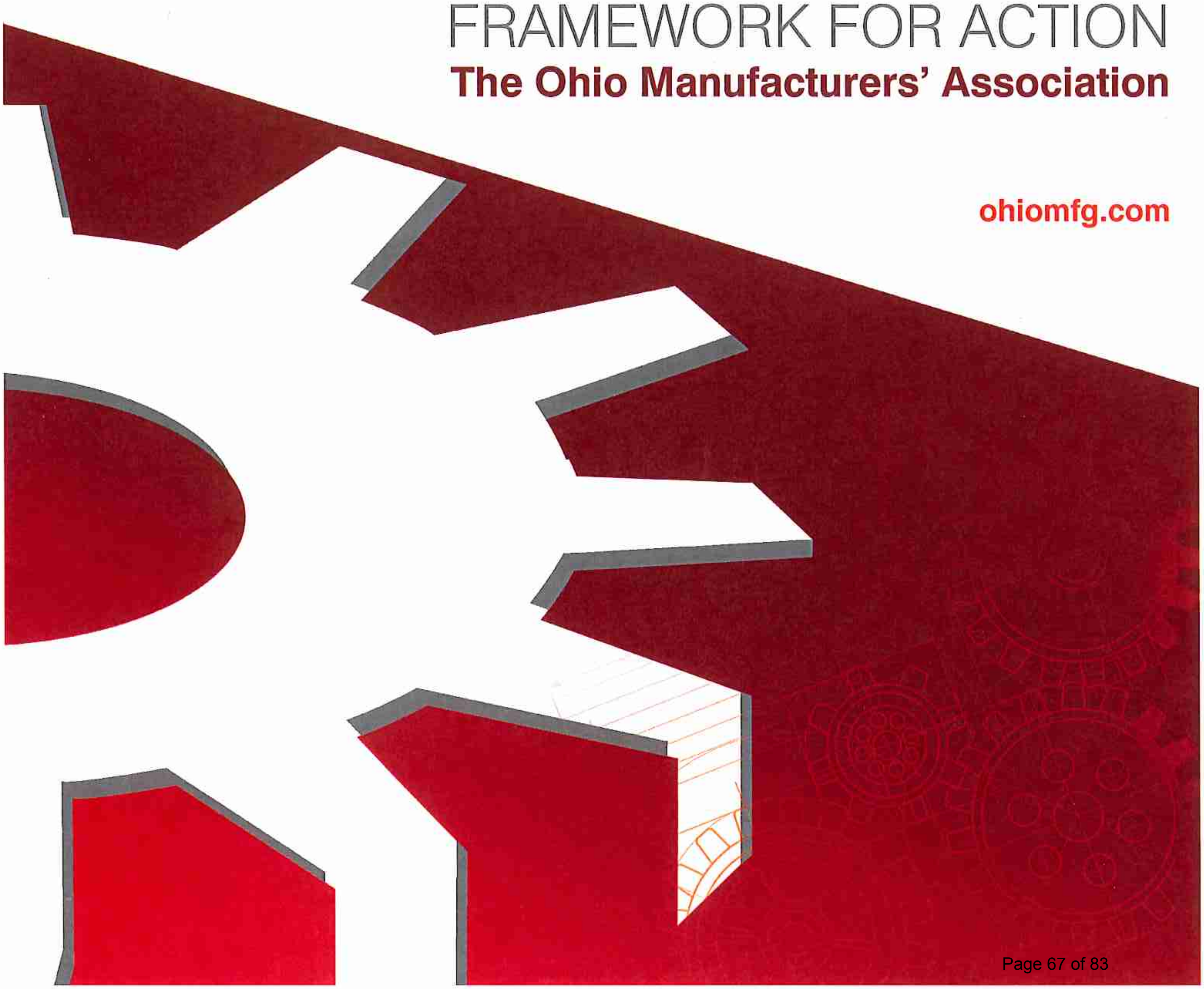
The opinion raises many questions under both the federal contract clause and the common law, and so one issue arises as to whether the US Supreme Court might find the case worthy of review. A number of state appeals courts are considering the same issue, including those in Michigan, Oregon and Texas. Oral argument at the Minnesota Supreme Court is scheduled for January 11 in the case of *Kimberly-Clark Corp. v. Comm'r of Revenue, Minn*. In light of this activity, a US Supreme Court review of the issue could perhaps be in the future, particularly if other state appeals court decisions contradict California's.

The Ohio Manufacturers' ASSOCIATION

OMA PUBLIC POLICY FRAMEWORK FOR ACTION

The Ohio Manufacturers' Association

ohiomfg.com



OMA
Public Policy Framework for Action

Manufacturing is responsible for 17% of Ohio's Gross Domestic Product; this is greater than the contribution of any other Ohio industry sector. Manufacturing is the engine that drives Ohio's economy.

In the competitive domestic and global economies, every public policy decision that affects Ohio's business climate affects Ohio's manufacturing competitiveness. In turn, Ohio's manufacturing competitiveness determines the ability of the state to grow its economy and create jobs.

Ohio manufacturers require public policies that attract investment and protect the state's manufacturing legacy and advantage. These policies apply to a wide variety of issues that shape the business environment within which manufacturers operate.

MAJOR POLICY GOALS INCLUDE THE FOLLOWING:

- **An Efficient, Competitive Tax System**
- **A Lean, Productive Workers' Compensation System**
- **Access to Reliable, Economical, Diverse Energy Resources**
- **A Fair, Stable, Predictable Civil Justice System**
- **Science-based, Technologically Achievable, and Economically Reasonable Environmental Regulations**
- **A Modern Public Resource Infrastructure**
- **An Educated, Highly Skilled Workforce**

Policy Goal:
An Efficient, Competitive Ohio Tax System

For Ohio to be successful in a global economy, the state's tax system must encourage investment and growth. It must 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 attributes.

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. Good budgeting and spending restraint at all levels of government are vital to a competitive tax environment.

Major tax reforms approved by the Ohio General Assembly in 2005 and additional reforms in 2011 through 2014 have led to significant improvements to a tax system that was for many years widely regarded as obsolete. These reforms reduced overall tax rates, eliminated tax on investment, and broadened the tax base, all of which provide more stable and predictable revenues, and simplify compliance.

The elimination of the tangible personal property tax, the corporate franchise tax, and the estate tax has strengthened the competitiveness of Ohio's tax system. So has the reduction of the personal income tax rate as well as the creation of a broad-based, low-rate commercial activity tax.

Going forward, these tax policy gains must be protected. Tax bases should be protected against erosion by granting narrow special interests credits and carve-outs, in order to protect the productivity of the taxes. Where possible and reasonable, tax bases should be expanded, and tax rates reduced.

In addition, the state should continue its negotiations with Ohio municipalities to 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.

The state's tax system would also benefit from a reduction of the number and type of taxing jurisdictions. Because of its complex layering of local and state taxes, Ohio's tax system is at a competitive disadvantage compared to other states.

The Ohio Manufacturers' Association

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Ohio Manufacturers' Association

Tax Counsel Report
June 8, 2016
By Mark A. Engel
Bricker & Eckler LLP

<u>Administrative Actions:</u>

None to report.

<u>Legislative Actions:</u>

Please see Mr. Brundrett's legislative report.

<u>Judicial Actions:</u>

<u>Ohio Supreme Court</u>

In *Corrigan v. Testa,* Slip Opinion 2016-Ohio-2805, the Court held that due process considerations precluded Ohio from imposing income tax on the capital gain to a nonresident individual upon the sale of his ownership interest in a pass-through entity. It held that R.C. 5747.212, which would have apportioned the gain inside and outside Ohio based on the income apportionment factors of the PTE, was unconstitutional. Essentially, the Court imposed a unitary business standard for taxing the gain associated with another entity doing business within Ohio.

In *Christian Voice of Central Ohio v. Testa*, Slip Opinion 2016-Ohio-1527, the Court found that property used to broadcast Christian radio programming, thereby raising millions of dollars of revenue annually, qualified for exemption as a house used exclusively for public worship. The three members of the minority had difficulty as to how the broad cast of Christian music and programming that raises millions of dollars equates to the claimed tax exemption as a house of public worship.

In *Dublin City Schools Bd. of Edn. v. Franklin Cty. Bd. of Revision*, Slip Opinion 2016-Ohio-3025, the Court provided additional guidance when the BOR may revert to the auditor's initial valuation. It stated that so long as the evidence presented to the BOR was competent and "minimally plausible" the BOE may not invoke the auditor's initial valuation. It noted the four elements for invoking the rule were (i) the property owner files a complaint or a counter-complaint; (ii) the BOR has reduced value based on the evidence presented by the owner; (iii) the BOE is the appellant before the BOR; and (iv) the BOR's decision is based on an appraisal rather than a sale.

Ohio Court of Appeals

In *Withintime, Inc. v. Cuyahoga Cty. Fiscal Officer*, 2016-Ohio-2944 (8th Dist.), the Court of Appeals upheld a decision of the court of common pleas dismissing an action for declaratory judgement, mandamus, and injunctive relief that contested the valuation of two parcels of property for years for which valuation complaints had not been filed. The Court of Appeals held that given the special statutory scheme for contesting valuation, declaratory, injunctive relief would be inappropriate.

In *Rambacher v. Testa*, 2016-Ohio-2897 (4th Dist.), the Court of Appeals dismissed an appeal where the appellant failed to file proof with the court that the appeal was filed with the BTA, and for failing to serve the Tax Commissioner by certified mail, both as required by R.C. 5717.04. The defects were deemed to be jurisdictional, hence the appeal was not properly taken and was dismissed.

In *Ryan, LLC v. Franklin Cty. Treasurer*, 2016-Ohio-3234 (10th Dist.), the Court of Appeals affirmed a decision of the Court of Common Pleas that the failure of a property owner to appeal a decision of the Board of Revision precluded a separate action under R.C. 2723.01 to enjoin the illegal levy or collection of taxes resulting from the BOR decision.

In *Brecksville-Broadview Heights Bd. of Edn. v. Cuyahoga Cty. Bd. of Revision*, 2016-Ohio-3166, the Court of Appeals affirmed a decision of the BTA that the price paid for a property during an auction did not reflect the value of the property. While the auction was open, there was no reservation to reject any or all bids by the owner and there was no evidence regarding the owner's motive in selling the property. Therefore, the presumption of R.C. 5713.04 that the price paid at auction shall not be taken as the value of the property was not overcome.

Ohio Board of Tax Appeals

In *Lucy C. Luisi, Trustee, v. Summit Cty. Bd. of Revision*, BTA No. 2015-1306 (May 31, 2016), the BTA held that appraisal evidence, which provides an opinion of value as of tax lien date, was prepared for tax valuation purposes, and was attested by a qualified expert, is competent probative evidence of value. Where an opponent provides no evidence and merely attempts to take issue with the actions of the appraiser, the opinion of value expressed in the appraisal will be deemed the value of the property.

In *House of Prayer Ministries #2 LLC v. Testa*, BTA No. 2015-1277 (May 31, 2016), the BTA rejected two arguments made against its jurisdiction. First, it rejected the argument that a notice of appeal that was signed by a non-lawyer was jurisdictionally defective because it constituted the unauthorized practice of law. Second, it held that the change in R.C. 5717.02(C), that a notice of appeal shall contain a short and plain statement of the claimed errors, means that the notice no longer must "specify" the errors complained of with the particularity required by prior law.

In *Columbus Regional Airport Authority v. Testa*, BTA No. 2015-564 (May 11, 2016), the BTA construed the limitation on property tax exemptions for property owned by a port authority contained in R.C. 4582.46. The statute limits the exemption to property that is leased for no longer than one year. While month-to-month tenancies that renew automatically appear to be a perpetual lease that defeats the exemption, the looked to the rental terms, which provided for rent to be determined annually. The lease also contained a provision that the hold-over provision beyond the base term of the lease was not intended to create a tenancy of any duration.

Tax Commissioner Opinion

No opinions to report.

Other

Nothing to report

Tax

House Hears Testimony on (Another) CAT Carve Out

May 27, 2016

This week the House Ways and Means Committee heard proponent testimony on House Bill 491. The bill establishes a five-year pilot program whereby taxpayers with Ohio facilities in an active foreign trade zone (FTZ) may claim a nonrefundable commercial activity tax (CAT) credit equal to the amount invested by the taxpayer in job creation and a number of other specified activities. Two consultants providing proponent testimony for the bill were questioned heavily by skeptical lawmakers.

The Legislative Service Commission fiscal analysis which is used to determine the cost impact of such legislation wrote, "Though the revenue reduction is undetermined, it could be sizable depending on the level of qualifying expenditures incurred by firms in the FTZs and their current CAT payments, none of which can be ascertained by LSC."

Legislators questioned whether it was a good idea to pass legislation when the cost impact is not able to be estimated.

Can Tool and Die Makers Qualify for the R&D Tax Credit?

May 27, 2016

OMA Connections Partner, Tax Credits Group, says it is often asked if tool and die shops can qualify for the R&D tax credit.

The short answer—absolutely.

The longer answer to whether your work is eligible for the R&D tax credit requires a deep dive into IRC § 41, which outlines a "4-Part Test" which all jobs or projects must meet to qualify for the credit.

Here's a look at each of these four parts as they relate to the tool and die Industry.

OMA Warns Against CAT Credit Expansions

May 20, 2016

This week the House Finance Committee had its third hearing on House Bill 475. The bill expands Ohio's current motion picture tax credit by increasing the total amount of credits that may be awarded from $20 million per fiscal year to $75 million per fiscal year. Currently the vast majority of the claimed credits are taken against the commercial activity tax (CAT).

The OMA sent a letter to House Finance Committee Chairman Ryan Smith (R-Bidwell) that said: "Manufacturers are concerned that any new carve-outs, exemptions, or credits could provide strain on the CAT forcing an increase in its rate."

Supreme Court Takes Up CAT Case in which OMA Filed Amicus

May 6, 2016

This week the Ohio Supreme Court heard the oral argument for three combined commercial activity tax (CAT) cases (Crutchfield, Inc., Mason Companies, Inc., and Newegg, Inc.). Last year the OMA, among others, filed amicus briefs at the high court in support of the Department of Taxation relative to these cases.

The three companies have challenged the state's authority to collect CAT because they do not have a physical presence in Ohio; the three companies in question do sell their products in Ohio.

The OMA et al. amicus brief argued that companies with no physical presence in the state that enjoy the benefits of doing business in Ohio (through various physical connections, such as computers and intermediaries) should pay the tax, as do their competitors that physically operate in Ohio.

You can watch the oral argument here.

Tax Relief on Temporary Workers Bill Moves Out of Committee

April 29, 2016

This week, House Bill 343, which would exempt employment services and employment placement services from sales and use tax, cleared the House Economic & Workforce Development Committee on a 7-4 vote.

The bill was contentious in committee because of the potential loss of state revenue to local governments. However, the tax was created with no clear tax policy; it became effective in 1993 in order to fill a hole in the state budget.

This continues to be a priority tax issue for Ohio manufacturers who must pay sales tax on their temporary employees.

Use the easy email tools at OMA's Manufacturing Advocacy Center to ask your representative to support this bill.

Bill Would Simplify Pass Through Filings

April 22, 2016

A bill affecting all "pass through entities," Senate Bill 288, sponsored by Senator John Eklund (R-Munson Township), received proponent testimony this week.

OMA tax counsel Mark Engel OMA writes in an analysis prepared for OMA members: "Senate Bill 288 proposes to require all pass through entities to file either a composite return or an informational return, and to make tax payments with respect to certain owners included in the composite return. The bill also changes the rate at which tax is computed." The bill, he says, "attempts to simplify the filing process and reduce the cash implications to the individual owners."

The Ohio Society of CPAs provided testimony in support of the changes.

HB9 **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: 5/25/2016 - **PASSED BY SENATE**; Vote 33-0

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-9

HB12 **TIF-INCENTIVE DISTRICTS** (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 creating the district.

Current Status: 5/25/2016 - **PASSED BY HOUSE**; Vote 71-26

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-12

HB19 **INTERNAL REVENUE CODE** (SCHERER G) To expressly incorporate changes in the Internal Revenue Code since March 22, 2013 into Ohio law and to declare an emergency.

Current Status: 4/1/2015 - **SIGNED BY GOVERNOR**; eff. 4/1/2015

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-19

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

Current Status: 11/18/2015 - Senate Ways and Means, (First Hearing)

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-26

HB32 **AIRCRAFT-MOTOR FUEL EXCISE TAX** (PERALES R) To subject the receipt of motor fuel used to operate aircraft to the motor fuel excise taxes rather than the sales and use taxes and to require a percentage of motor fuel excise tax revenue to be used for airport improvements.

Current Status: 2/10/2015 - Referred to Committee House Ways and Means

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-32

HB64 **OPERATING BUDGET** (SMITH R) To make operating appropriations for the biennium beginning July 1, 2015, and ending June 30, 2017, and to provide authorization and conditions for the operation of state programs.

Current Status: 6/30/2015 - **SIGNED BY GOVERNOR**; eff. 6/30/15; certain provisions effective 9/29/2015, other dates

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-64

HB65 **TAX-EXPENDITURE APPRAISAL** (DRIEHAUS D) To provide for the periodic appraisal of the effectiveness of tax expenditures.

Current Status: 3/24/2015 - House Ways and Means, (First Hearing)

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-65

HB84 **MUNICIPAL TAX-CIVIL ACTIONS** (SPRAGUE R, SWEENEY M) To require civil actions by taxpayers related to municipal income taxes be brought against the municipal corporation imposing the tax rather than the municipal corporation's tax administrator.

Current Status: 3/24/2015 - House Ways and Means, (First Hearing)
State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-84

HB99 **INCOME TAX-SCHOOL FUNDING** (CURTIN M) To require that an amount equal to state income tax collections, less amounts contributed to the Ohio political party fund via the income tax checkoff, be distributed for the support of elementary, secondary, vocational, and special education programs.

Current Status: 5/5/2015 - House Ways and Means, (Second Hearing)
State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-99

HB102 **VETERAN-OWNED BUSINESSES** (CRAIG H, ANTANI N) To provide a bid preference for state contracts to a veteran-owned business and to authorize a personal income and commercial activity tax credit for a business that hires and employs a veteran for at least one year.

Current Status: 4/28/2015 - House Ways and Means, (First Hearing)
State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-102

HB162 **SEVERANCE TAX RATES** (CERA J) To change the basis, rates, and revenue distribution of the severance tax on oil and gas, to create a grant program to encourage compressed natural gas as a motor vehicle fuel, to authorize an income tax credit for landowners holding an oil or gas royalty interest, and to exclude some oil and gas sale receipts from the commercial activity tax base.

Current Status: 5/12/2015 - House Ways and Means, (First Hearing)
State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-162

HB176 **GAS-FUEL CONVERSION PROGRAM** (HALL D, O'BRIEN S) 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: 11/18/2015 - **REPORTED OUT**, House Finance, (First Hearing)
State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-176

HB232 **SELLER-USE TAX COLLECTION** (GROSSMAN C, SCHERER G) To prescribe new criteria for determining whether sellers are presumed to have substantial nexus with Ohio and therefore required to register to collect use tax, to allow sellers presumed to have substantial nexus to rebut that presumption, and to require a person, before the person enters into a sale of goods contract with the state, to register, along with the person's affiliates, to collect use tax.

Current Status: 6/2/2015 - Referred to Committee House Ways and Means
State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-232

HB269 **INCOME TAX-SOUND RECORDING** (SMITH K, LATOURETTE S) To authorize a refundable income tax credit for individual investors in a sound recording production company equal to a portion of the company's costs for a recording production or recording infrastructure project in Ohio.

Current Status: 2/16/2016 - House Ways and Means, (Second Hearing)

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-269

HB280 **BALANCED BUDGET COMPACT** (KRAUS S, KOEHLER K) To adopt the Compact for a Balanced Budget and to declare an emergency.

Current Status: 6/30/2015 - Introduced

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-280

HB308 **TEXTBOOKS-TAX EXEMPTION** (DUFFEY M, STINZIANO M) To exempt from sales and use tax textbooks purchased by post-secondary students.

Current Status: 10/21/2015 - House Ways and Means, (First Hearing)

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-308

HB326 **TAX LAW-JOINT FILING** (AMSTUTZ R, MCCLAIN J) To make technical changes to the state income tax law, to modify the requirements for receiving the joint filing credit, and to provide that, for the 2015 taxable year, any taxable business income under $125,000 for married taxpayers filing separately or $250,000 for other taxpayers is subject to the graduated tax rates applicable to nonbusiness income, while business income in excess of those amounts remains subject to the existing 3% flat tax.

Current Status: 10/26/2015 - House Ways and Means, (Fifth Hearing)

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-326

HB343 **EMPLOYMENT SERVICES-TAX EXEMPT** (YOUNG R, ROMANCHUK M) To exempt employment services and employment placement services from sales and use tax.

Current Status: 4/27/2016 - **REPORTED OUT**, House Economic and Workforce Development, (Eighth Hearing)

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-343

HB358 **TAX DEDUCTION-SAVINGS ACCOUNTS** (DEVER J, CONDITT M) To allow an income tax deduction for contributions to ABLE savings accounts.

Current Status: 4/19/2016 - House Ways and Means, (Second Hearing)

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-358

HB369 **BALANCED BUDGET COMPACT** (KOEHLER K, HAMBLEY S) To adopt the Compact for a Balanced Budget and to declare an emergency.

Current Status: 5/24/2016 - House Government Accountability and Oversight, (Third Hearing)

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-369

HB390 **NATURAL GAS-ET AL** (SCHAFFER T, RETHERFORD W) To provide authorization and conditions for the operation of state programs and to make appropriations.

Current Status: 5/25/2016 - Consideration of Senate Amendments; House Does Concur, Vote 69-26

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-390

HB398 **CAUV COMPUTATION** (HILL B) To require that the computation of the capitalization rate for the purposes of determining CAUV of agricultural land be computed using a method that excludes appreciation and equity buildup.

Current Status: 5/3/2016 - House Government Accountability and Oversight, (Second Hearing)

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-398

HB454 **SALES TAX HOLIDAY-PERMANENT** (PATTERSON J) To provide for a permanent three-day sales tax "holiday" each August during which sales of back-to-school clothing and school supplies are exempt from sales and use taxes.

Current Status: 2/23/2016 - Referred to Committee House Ways and Means

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-454

HB466 **TAX-EXEMPT-DIGITAL ADVERTISING** (SMITH R) To specifically exempt digital advertising services from sales and use tax.

Current Status: 5/25/2016 - **PASSED BY SENATE**; Vote 32-1

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-466

HB467 **UNEMPLOYMENT COMPENSATION FUND** (BUTLER, JR. J) To establish a loan from the Budget Stabilization Fund to the Unemployment Compensation Fund, to require the Director of Job and Family Services to recommend a program to incentivize the purchase of private unemployment insurance, and to require a study on the solvency of the Unemployment Compensation Fund.

Current Status: 4/13/2016 - Referred to Committee House Insurance

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-467

HB473 **UTILITY SERVICE TAX-LEVY** (AMSTUTZ R) To require voter approval before a county may levy a new utilities services tax, to allow small businesses to count employees of related or affiliated entities towards satisfying the employment criteria of the business investment tax credit, to permit a bad debt refund for cigarette and tobacco product excise taxes paid when a purchaser fails to pay a dealer for the cigarettes or tobacco products and the unpaid amount is charged off as uncollectible by the dealer.

Current Status: 5/17/2016 - House Ways and Means, (Fourth Hearing)

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-473

HB475 **MOTION PICTURE-TAX CREDIT** (SCHURING K) To authorize motion picture companies to transfer the authority to claim refundable motion picture tax credits to other persons, to adjust how the credit is calculated, to increase the total amount of credits that may be awarded per year, to remove the limit on the maximum credit amount that may be awarded to a motion picture, and to create a job training program for resident film crew members.

Current Status: 5/24/2016 - **REPORTED OUT AS AMENDED**, House Finance,

(Fourth Hearing)
State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-475

HB484 **TAX-EXEMPT PRODUCTS** (SYKES E, CERA J) To exempt from sales and use tax the sale of nonprescription human drugs, feminine hygiene products associated with menstruation, and disposable baby diapers, to reimburse the Local Government Fund and Public Library Fund and county and transit sales and use tax collections for any revenue lost due to those exemptions, and to create the Legislative Commission on Middle Class Economic Strength to study proposed income, sales, or use tax legislation that changes the proportionate tax burden among income classes or other classes.
Current Status: 4/13/2016 - Referred to Committee House Ways and Means
State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-484

HB485 **INCOME TAX DEDUCTION-TUITION** (RAMOS D) To reinstate the state income tax deduction for qualified higher education tuition and fee payments that expired December 31, 2005.
Current Status: 4/13/2016 - Referred to Committee House Ways and Means
State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-485

HB489 **MINE FUNDS** (CERA J) To credit a portion of the money derived from the Kilowatt-Hour Tax Receipts Fund to the Abandoned Mine Reclamation Fund, the Acid Mine Drainage Abatement and Treatment Fund, and the Mine Safety Fund and to make other changes to those funds.
Current Status: 5/10/2016 - House Ways and Means, (First Hearing)
State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-489

HB491 **TAX CREDIT-PILOT PROGRAM** (ANIELSKI M) To establish a five-year pilot program whereby taxpayers with facilities in this state with activated foreign trade zone status may claim a nonrefundable commercial activity tax credit equal to the amount redeployed by the taxpayer to job creation or other specified projects.
Current Status: 5/24/2016 - House Ways and Means, (Second Hearing)
State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-491

HB492 **CAPITAL IMPROVEMENT-PILOT** (ROGERS J, DRIEHAUS D) To create the Supplemental State Capital Improvements Pilot Program funded by a temporary transfer from the Budget Stabilization Fund and to make an appropriation.
Current Status: 4/13/2016 - Referred to Committee House Finance
State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-492

HB515 **HEATING FUELS-SALES TAX** (PATTERSON J, CERA J) To exempt from sales and use taxation the bulk sale of firewood and certain other heating fuels, and to reimburse the Local Government Fund and Public Library Fund and county and transit sales tax collections for the resulting revenue losses.
Current Status: 4/26/2016 - Referred to Committee House Ways and Means
State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-515

HB547 **MBR-OBM** (SMITH R) To provide authorization and conditions for the operation of state programs and to make appropriations.

Current Status: 5/24/2016 - **SUBSTITUTE BILL ACCEPTED**, House Finance, (Fourth Hearing)

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-547

HB563 **INCOME TAX-LAYOFFS** (RAMOS D) To provide for payments to municipalities or school districts for their lost income tax revenue after a business lays off 50 or more employees within their jurisdiction.

Current Status: 5/12/2016 - Introduced

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-563

HB565 **TAX CREDIT-STUDENT LOANS** (RAMOS D) To allow a credit against the income tax or commercial activity tax for graduates or employers who make payments on student loans obtained by the graduate to earn a degree from an Ohio college or university.

Current Status: 5/12/2016 - Introduced

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-565

SB2 **INTERNAL REVENUE SERVICE-INCORPORATE CHANGES** (PETERSON B) To expressly incorporate changes in the Internal Revenue Code since March 22, 2013, into Ohio law, and to declare an emergency.

Current Status: 2/14/2016 - **SIGNED BY GOVERNOR**; eff. 2/14/2016

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-SB-2

SB12 **INCOME TAX CREDIT-SCIENCE RELATED DEGREE** (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: 2/4/2015 - Referred to Committee Senate Ways and Means

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-SB-12

SB18 **TAX CREDIT-NATIONAL GUARD EMPLOYMENT** (GENTILE L) To authorize a refundable income tax credit for employers that hire one or more qualified veterans or members of the National Guard or reserves.

Current Status: 4/27/2016 - Senate Ways and Means, (First Hearing)

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-SB-18

SB21 **EARNED INCOME TAX CREDIT RESTRICTION** (SKINDELL M) To remove the income restriction on the earned income tax credit and to make the credit refundable beginning in 2015.

Current Status: 2/4/2015 - Referred to Committee Senate Ways and Means

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-SB-21

SB40 **ECONOMIC DEVELOPMENT TAX CREDIT** (BEAGLE B) To authorize tax credits for contributions of money to economic and infrastructure development projects undertaken by local governments and non-profit corporations.

Current Status: 6/10/2015 - Senate Ways and Means, (First Hearing)

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-SB-40

SB41 **NEW MARKETS TAX CREDIT QUALIFICATIONS** (BEAGLE B, TAVARES C) To modify the qualifications for the New Markets Tax Credit and the schedule for receiving the credit.

Current Status: 6/3/2015 - Senate Ways and Means, (First Hearing)

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-SB-41

SB52 **AIRCRAFT FUEL EXCISE TAX** (BEAGLE B) To subject the receipt of motor fuel used to operate aircraft to the motor fuel excise taxes rather than the sales and use taxes and to require a percentage of motor fuel excise tax revenue to be used for airport improvements.

Current Status: 2/18/2015 - Referred to Committee Senate Ways and Means

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-SB-52

SB88 **FELON EMPLOYMENT TAX CREDIT** (TAVARES C, THOMAS C) To create a tax credit for the employment of individuals who have been convicted of criminal offenses.

Current Status: 3/4/2015 - Referred to Committee Senate Ways and Means

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-SB-88

SB100 **SALES TAX HOLIDAY-ENERGY STAR** (BROWN E) To provide a three-day sales tax "holiday" each April during which sales of qualifying Energy Star products are exempt from sales and use taxes.

Current Status: 3/4/2015 - Referred to Committee Senate Ways and Means

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-SB-100

SB198 **NON-RESIDENT MUNICIPAL INCOME TAX** (JORDAN K) To prohibit municipal corporations from levying an income tax on nonresidents' compensation for personal services or on net profits from a sole proprietorship owned by a nonresident.

Current Status: 9/29/2015 - Senate State and Local Government, (First Hearing)

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-SB-198

SB208 **STATE INCOME TAX** (BEAGLE B) To make technical changes to the state income tax law, to modify the requirements for receiving the joint filing credit.

Current Status: 11/15/2015 - **SIGNED BY GOVERNOR**; Eff. 2/15/2016, Certain provisions effective 11/15/2015

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-SB-208

SB209 **OHIO RURAL JOBS ACT** (HITE C) To enact the "Ohio Rural Jobs Act" which authorizes a nonrefundable tax credit for insurance companies that invest in rural business growth funds, which are certified to provide capital to rural and agricultural businesses.

Current Status: 12/8/2015 - House Agriculture and Rural Development, (Second Hearing)

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-SB-209

SB235 **INCREASED VALUE-PROPERTY TAX** (BEAGLE B, COLEY W) To exempt from property tax the increased value of property on which industrial or commercial development is planned until construction of new commercial or industrial facilities at the property commences.

Current Status: 5/4/2016 - **PASSED BY SENATE**; Vote 22-11
State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-SB-235

SB246 **CAUV COMPUTATION-CAPITALIZATION RATE** (HITE C) To require that the computation of the capitalization rate for the purposes of determining CAUV of agricultural land be computed using a method that excludes appreciation and equity buildup.

Current Status: 4/27/2016 - Senate Ways and Means, (Fourth Hearing)
State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-SB-246

SB260 **CAPITAL REAPPROPRIATIONS** (COLEY W) To make capital reappropriations for the biennium ending June 30, 2018.

Current Status: 2/21/2016 - **SIGNED BY GOVERNOR**; eff. 7/1/2016
State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-SB-260

SB288 **INCOME TAX-PASS THROUGH ENTITIES** (EKLUND J) To revise the law governing how taxes on income from pass-through entities is to be reported and paid by the entities and their investors.

Current Status: 4/20/2016 - Senate Ways and Means, (Second Hearing)
State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-SB-288

SB289 **MOTION PICTURE TAX CREDIT** (PATTON T) To increase the overall cap on the motion picture tax credit from $40 million per fiscal biennium to $100 million for the current fiscal biennium and $160 million for all subsequent biennia.

Current Status: 4/12/2016 - Referred to Committee Senate Ways and Means
State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-SB-289

SB302 **PROPERTY TAX EXEMPTION-MILITARY VETERANS-DISABLED** (SCHIAVONI J, GENTILE L) To exempt from property taxation the primary residence of military veterans who are disabled.

Current Status: 4/12/2016 - Referred to Committee Senate Ways and Means
State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-SB-302

SB305 **TAX CERTIFICATES-SALE PROHIBITION** (WILLIAMS S) To prohibit the sale of tax certificates for parcels owned by a person sixty-five years of age or older and that include the primary residence of the owner.

Current Status: 4/12/2016 - Referred to Committee Senate Ways and Means
State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-SB-305

SB310 **CAPITAL APPROPRIATIONS** (OELSLAGER S) To make capital appropriations and changes to the law governing capital projects for the biennium ending June 30, 2018.

Current Status: 5/17/2016 - **SIGNED BY GOVERNOR**; eff. in 90 days
State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-SB-310