



Ohio Governor Kasich Puts Forward Tax Changes in New Budget

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Ohio Gov. John Kasich (R) introduced his \$144.28 billion budget today for fiscal years 2018 and 2019. The plan totals to a \$39 million tax cut over the next two years. As far as sound tax policy goes, the budget is a mixed bag. The governor proposes some smart reform, such as consolidating the state's nine income tax brackets, but also includes some harmful changes, such as increasing tobacco taxes to help offset revenue losses.

Kasich has proposed consolidating the state's income tax brackets down to five brackets and lowering marginal rates. The top marginal rate will drop from 4.997 percent to 4.33 percent in 2018. Kasich's budget increases the personal exemption and expands the low-income credit by increasing the eligible income level. This change effectively eliminates the state income tax for more than 350,000 low income Ohioans.

Here are the new income tax brackets under Kasich's budget proposal:

Current Brackets	Current Rates
\$0-\$5,250	0.495%
\$5,250-\$10,500	0.990%
\$10,500-\$15,800	1.980%
\$15,800-\$21,100	2.476%
\$21,100-\$42,100	2.969%
\$42,100-\$84,200	3.465%
\$84,200-\$105,300	3.960%
\$105,300-\$210,600	4.597%
More than \$210,500	4.997%

New Income Brackets	Tax Rates 2017	Tax Rates 2018
\$0-\$10,000	0.50%	0.456%
\$10,000-\$25,000	1.50%	1.367%
\$25,000-\$100,000	3.25%	2.963%
\$100,000-\$200,000	4.25%	3.874%
More than \$200,000	4.75%	4.33%

Reducing the number of tax brackets reduces unnecessary complexity in the tax code, and lowering the income tax rate can encourage economic growth.

Kasich's proposal also broadens the sales tax base and raises the rate to offset his proposed income tax cuts. His proposal raises the sales tax from 5.75 percent to 6.25 percent while adding several services to the sales tax base. He includes services such as cable TV subscriptions, elective cosmetic surgery, lobbying fees, landscape designs, interior design and decorating, travel packages, and repossession services.

These changes are steps in the right direction. Properly structured sales tax systems, which should be aimed at taxing all consumption, would include services in the tax base. As state economies are comprised more of services than goods, less of the economy is taxed, favoring the service sector of the economy over the goods sector.

As to excise taxes, the governor proposes increasing "sin" taxes on tobacco and includes vapor products (like e-cigarettes) in tobacco taxes. Currently, Ohio taxes cigarettes at \$1.60 a pack. Under the governor's new budget, the tax will rise to \$2.25 a pack, with an equivalent tax on other tobacco products. As we have previously noted, cigarette taxes have a host of unintended consequences, such as cigarette smuggling. Additionally, taxing vapor products at punitive rates can discourage people from seeking a less harmful alternative to cigarettes.

The governor's budget also recommends reforming the state's severance tax system. Currently, Ohio's severance tax is 20 cents on a barrel of oil and 3 cents on an MCF unit (thousand cubic foot) of natural gas. Kasich's recommendation is to enact a fixed rate of 6.5 percent when crude oil or natural gas is sold at the wellhead and 4.5 percent for natural gas when sold later in the distribution process. Governor Kasich has a track record of proposing severance tax increases, and the legislature has a history of rejecting them.

Governor Kasich proposes some substantial positive changes to the income tax and sales tax systems in Ohio. While his tobacco tax proposals are troubling and the severance tax items appear DOA, the House and Senate will have the last say on what survives the final budget.

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