

**Governor Mike DeWine's Executive Budget Proposal**  
**Ohio House Ways & Means Committee**  
**Patricia Harris, Ohio Tax Commissioner**  
**February 19, 2025**

## **Introduction**

Chairman Roemer, Vice Chair Thomas, Ranking Member Troy, and members of the House Ways and Means Committee: I am Patricia Harris, Tax Commissioner at the Ohio Department of Taxation (Taxation).

Thank you for the opportunity to testify today on the tax related aspects of Governor Mike DeWine's Fiscal Year (FY) 2026-2027 budget, and the Department's biennial budget request.

Our mission at the Department of Taxation is to serve the public as one team, providing education, innovation, outreach, and exceptional service to our customers. Our vision is to create a seamless and user-centric experience for all Ohio taxpayers. These two statements are our guiding principles in establishing priorities, utilizing resources, and maximizing work efforts to achieve our goals and meet our objectives.

Taxation administers and enforces more than 30 state and local taxes and fees, including sales and use taxes, the state's individual income tax, school district income taxes, and an array of business and excise taxes. It also directs and supervises the assessment for taxation of all real property in Ohio's 88 counties. In fiscal year 2024, net collections of state-collected taxes & fees administered by Taxation were approximately \$36.1 billion. We distributed roughly \$7.1 billion in revenues to Ohio's local governments and school districts.

## **Fiscal Years 2026-2027 Tax Proposals**

The tax proposals contained in this budget will continue Governor DeWine's vision of making Ohio the heart of it all. This includes investing in Ohio's children and their families. It involves supporting our communities to keep them vibrant places to live and work. It also responsibly ensures that resources will be available to meet the changing needs of our state and its citizens. I am happy to provide details on each of these proposals.

## *Ohio Child Tax Credit*

Over the past six years, the DeWine Administration has championed numerous proposals to support Ohio's children and their families. In the previous operating budget, the General Assembly partnered with the administration in eliminating the sales tax on many critical infant supplies like diapers, car seats and cribs. This budget expands upon that success by providing tax relief to the working families of Ohio's youngest children.

This budget proposes the creation of an Ohio child tax credit (CTC). This refundable tax credit, of up to \$1,000, would be available to qualifying Ohio taxpayers with children aged 0 to 6 years.

This proposal is partially modeled after the federal CTC. The federal CTC is a popular tax credit program that has been providing tax relief to American families for nearly 30 years. Studies have shown the federal CTC to be an effective tool for reducing childhood poverty, improving child well-being, and increasing labor force participation.<sup>1</sup> Not only is the federal CTC program effective, but it has also traditionally received bipartisan support.

Ohio's proposed child tax credit seeks to provide many of the same benefits as the existing federal program. Like the federal child tax credit, Ohio's child tax credit is phased in. Qualifying taxpayers begin to become eligible for the credit as their income exceeds \$2,500. The credit amount continues to increase as until income reaches \$22,500, above which the credit amount is capped at \$1,000. This incentivizes taxpayers to continue to work and grow their incomes. The Ohio CTC also has an upper phase out. For single taxpayers, the phase out is \$50,000, for married-filing-jointly, \$75,000, and married-filing-separately, \$37,500. As income exceeds these phaseout amounts, the credit decreases until the credit reaches \$0 as the phase out is exceeded by \$19,000. This gradual reduction approach is done to avoid creating a tax credit cliff, where a taxpayer loses the entirety of a credit once certain income thresholds are exceeded.

---

<sup>1</sup> *The Antipoverty Effects of the Expanded Child Tax Credit across States; Where Were the Historic Reductions Felt?*, Brookings Institution (2023); *The Impact of the 2021 Expanded Child Tax Credit on Child Poverty*, United State Census Bureau (2022); *Impact of the United States Federal Child Tax Credit on Childhood Injuries and Behavior Problems*, Children and Youth Services Review (2020); *The Effects of the Child Tax Credit on Labor Supply*, Office of Tax Analysis, United States Treasury (2022)

The benefits of CTCs are well established. Adding a state CTC to Ohio's tax code would provide working Ohio families with the support they need to allow their young children to grow up healthier, safer, and better able to have a strong start to life.

### *Reforming Tobacco and Nicotine Taxes*

The child tax credit proposal in this budget is made possible by conservative budgeting and timely updates to Ohio's excise taxes on tobacco and nicotine products. This budget proposes to increase Ohio's current \$1.60-per-pack cigarette tax to \$3.10 per pack. A one-time floor tax would be levied on unsold cigarettes at retail and wholesale locations to cover the new \$1.50 tax liability.

Ohio's cigarette tax has not been adjusted since 2015 and has lost significant value due to inflationary pressures. Additionally, there is considerable research from the medical community which demonstrates that increasing cigarette taxes is an effective deterrent to youth smoking.<sup>2</sup> More specifically, outside organizations have estimated that this cigarette tax adjustment would lead to an 10.7% reduction in youth smoking, keeping 11,800 Ohio youth from becoming smokers.<sup>3</sup> This same research indicates that under this proposal, nearly 44,000 current smokers would quit smoking, over 14,000 premature smoking-caused deaths would be prevented, and over \$700 million in long-term health care cost savings would be realized. This would be a strong fiscal benefit to the state and lead to transformational improvements in health outcomes for thousands of Ohioans.

This budget proposal also adjusts the tax on other tobacco products (OTP). OTP includes products like cigars, chewing tobacco and pipe tobacco. The tax on these products has not been changed since 1993. The proposal increases the existing rate of 17% of wholesale cost to 42%. This will establish parity with the cigarette tax at the proposed \$3.10 per pack rate. This equalization ensures that the state does not incentivize one form of tobacco usage over another due to differential tax rates. This proposal also makes a proportional adjustment to the existing \$0.64 tax cap on premium cigars by instituting a new \$1.58 tax cap per premium cigar.

---

<sup>2</sup> *The Relationship Between Tobacco Taxes and Youth and Young Adult Smoking: What Happened Following the 2009 U.S. Federal Tax Increase on Cigarettes?* **Addictive Behaviors** (2015); *Overview of Systematic Reviews on the Health-Related Effects of Government Tobacco Control Policies*, **BMC Public Health** (2015); *Raising the Excise Tax on Cigarettes: Effects on Health and the Federal Budget*, **Congressional Budget Office** (2012)

<sup>3</sup> *New Revenues, Public Health Benefits & Cost Savings from a \$1.50 Cigarette Tax Increase in Ohio*, **American Cancer Society Cancer Action Network**, Campaign for Tobacco-Free Kids, Tobacconomics (2025)

This budget updates the existing \$0.10 per mL vapor products tax to \$0.20 per mL. Research indicates that youth are price sensitive to adjustments in vapor product taxes, and increasing these rates can be an effective tool for reducing youth vaping.<sup>4</sup> Additionally, this budget proposes a modernization of the definition of vapor products to include other non-combustible, non-tobacco nicotine delivery products. This includes products like oral nicotine pouches. As Ohio already has an established tax on nicotine through the vapor product tax, this definitional update modernizes that tax to include newly-developed products that are currently untaxed. Existing nicotine delivery products that are FDA-approved smoking cessation products would not be included in this updated definition and would remain exempt.

### *Cannabis*

Included in this budget is an increase to Ohio's adult use cannabis excise tax from the existing 10% to 20%. This is projected to raise an additional \$87 million in FY 2026 and \$176 million in FY 2027. These funds would flow to the adult use tax fund, which would disperse these funds to vital community services like jail construction, law enforcement training, substance abuse education programs, the 9-8-8 hotline and more.

My counterparts at other state agencies are best positioned to explain the improvements to community health and safety that this funding will support. This tax proposal is the mechanism that supports all these efforts. The adult use cannabis industry brings with it certain costs, and this proposal ensures that these funding needs are met without competing against other state priorities.

### *Sports Gaming*

The Executive budget proposal recommends an adjustment to Ohio's sports gaming receipts tax, increasing the rate from the current 20% to 40%. It is important to note that the sports gaming receipts tax is a tax levied on sports gaming proprietors, not on the winnings of individual sports bettors. The proceeds from this adjustment are estimated to generate an additional \$138 million in FY 2026 and \$150 million in FY 2027.

The additional revenues generated by this provision are dedicated to a new Sports Facilities Construction and Sports Education Fund. The creation of this fund serves the goal of producing a

---

<sup>4</sup> *Investigating the Impact of E-Cigarette Price and Tax on E-Cigarette Use Behavior*, American Journal of Preventative Medicine (2023)

non-GRF revenue stream to support professional sports facility construction across Ohio as well as to ensure Ohio's youth have access to a wide variety of sports programs at no cost. This will provide a single state funding stream for major sports facilities, which not only provide enjoyment for fans but serve as an important part of their local economies.

### *Investing in Communities through Historic Preservation*

In addition to the significant tax relief to Ohio working families, this budget proposes significant investments into our economic and community resources. The budget proposes to double the historic preservation tax credit program, permanently raising the annual limit on the credit from \$60 million to \$120 million per year. This credit program is a proven tool to stimulate private investment in our state's historic structures. Since its inception, 722 projects have been approved across 91 different communities around the state, leveraging more than \$10.7 billion in private development funding and federal tax credits. The permanent expansion will create jobs, revitalize downtowns, encourage tourism, and help preserve our local history.

In addition to the expansion of Ohio's existing historic preservation tax credit program, this budget also proposes the creation of a new \$10 million residential historic preservation tax credit program. This program would allow for a refundable income tax credit, up to \$120,000 per project, to reimburse 25 percent of qualified expenses incurred in restoring a qualifying owner-occupied historic residential property. This new program will provide new opportunities for investment in historic residential properties across the state, unleashing additional economic and cultural benefits.

### *Other Tax Changes*

In addition to the significant tax reform proposal described above, this budget also contains numerous technical updates to Ohio's tax code. During the development of this budget proposal, I asked Department staff to submit ideas to simplify the tax code, reduce paperwork, and update outdated requirements and procedures. I believe these changes will benefit Ohio's taxpayers. For example:

- **General Penalty Abatement:** Under existing law, there is no consistent authority for the Tax Commissioner to remove or reduce a penalty or additional charge imposed on a taxpayer. This provision provides a uniform ability for the Tax Commissioner to remove or reduce penalties and charges.

- **Electronic Refund Notices:** Under existing law, if a taxpayer requests a refund and the Tax Commissioner issues that refund in an amount less than the amount requested, the Commissioner is required to send a notice to the applicant by ordinary mail. This provision allows the Tax Commissioner to send notice via secured electronic means to the taxpayer, so long as the taxpayer has consented to electronic notification. This will help get in touch with the taxpayer expeditiously.

These are just a handful of the many technical changes included in this budget that will positively impact Ohio's taxpayers. My staff and I are happy to discuss any other changes included in this proposal.

## Department Budgetary Request

I would like to turn now to the Department of Taxation's budget request for the upcoming biennium. For fiscal year 2026, the Department respectfully requests \$63.8 million in GRF for general operating expenses and \$86.3 million in Dedicated Purpose Funds (DPF). The remainder of our budget, slightly over \$3.1 billion, is largely comprised of fiduciary funds, which are used to pay refunds to taxpayers. The Department's request for fiscal year 2027 is \$67.6 million in GRF and \$87.7 million in DPF, with the remaining \$3.1 billion remainder made up of primarily of fiduciary funds.

The current full-time permanent employee headcount at the Department is 752 employees. This budget request supports 760 full-time permanent positions. For historical context, 15 years ago, the employee headcount totaled nearly 1,400 employees.

Over the past year, the Department handled over 414,000 taxpayer phone calls, nearly 42,000 email inquiries, and over 38,000 Ohio Business Gateway cases. Additionally, we processed 605,000 paper returns, over one million check payments, and scanned over 9.1 million pages of combined tax returns, checks, and correspondence. I would specifically like to highlight several other accomplishments from this biennium:

- **OH|TAX eServices:** Our OH|TAX eServices system was successfully launched in September 2023 to modernize and replace older tax administration systems. This new platform is free to taxpayers and simplifies and enhances online services. Over 900,000 taxpayer accounts were created and utilized to view and respond to notices, make payments, and/or file their individual income tax and school district taxes. Additionally, six more tax types were added to

the eServices platform in December of 2024, including the sales tax and employer withholding tax. By the end of the project in Fiscal Year 2028, all taxes will be moved into OH|TAX.

- **Modernization of Real Property Tax Administration** - The Division of Tax Equalization (DTE), which handles real property and property tax issues, is undergoing a significant modernization effort to enhance the efficiency of the property tax system. Historically reliant on paper-based processes and burdened with outdated technology, DTE is transitioning to digital platforms for all forms, reports, and information exchanges with counties.

## Conclusion

To conclude, I would like to reiterate that this tax proposal benefits our children and families, our communities, and the state as a whole. It invests in Ohio's working families so that their children may have brighter tomorrows. It ensures that our communities have the resources needed to thrive into the future. It is a proposal that positions Ohio for growth and success for years to come.

Thank you for the opportunity to explain these proposals and the work that the Department does every day. With that, I conclude my remarks, and I thank you for the opportunity to speak to you today. My team and I are happy to answer any questions you may have.