



Department of
Taxation

\$2.7 Billion Tax Cut Among Highlights of New State Budget

Ohio Governor John Kasich and the Ohio General Assembly have approved a new, two-year state budget that includes **significant state tax law changes** designed to build on and accelerate the economic and job growth in Ohio over the past two years. The biennial budget period begins July 1, 2013.

The tax law changes launched with this budget will deliver a **\$2.7 billion tax cut** to Ohio businesses and individuals over the next three years. This tax cut is the product of multiple elements including:

- A **10% personal income tax cut** phased in over the next three years. In 2013, rates are being reduced 8.5%; in 2014, the rate cut is 9%; in 2015, the full 10% reduction is reached.
- **Employer withholding tables will be updated** in 2013 to reflect the lower income tax rate enacted with this budget.
- Ohio small businesses will be entitled to take a **50% tax deduction** on the first \$250,000 of business income. This deduction is available to owners/investors of all companies structured as pass-through entities.
- A new **Earned Income Tax Credit** will provide assistance for an additional 475,000 lower income households.

Other measures in the budget bill impact several major taxes including the sales and use tax, income tax, commercial activity tax, motor fuel receipts tax, real property tax and tobacco taxes. Those include:

Sales and Use Tax

- **The state sales and use tax rate will increase from 5.5% to 5.75% on September 1, 2013.**
- Digital products, including books, music, and videos delivered electronically, will be subject to tax just as they are if purchased or rented from a retail establishment.
- Just as magazines have been taxed when purchased at newsstands, magazine subscriptions will also be subject to sales or use taxes, beginning January 1, 2014.

Income Tax

- Inflation indexing of income tax brackets and personal/dependent exemptions will be suspended for three years beginning in 2013.
- The \$20 personal exemption credit will be available only to households with Ohio taxable income under \$30,000.

Commercial Activity Tax (CAT)

- The minimum tax will change from a flat \$150 tax to a variable tax tied to the level of business receipts. The CAT rate of .26% and the \$1 million exclusion are unchanged.

Motor Fuel Receipts Tax

- Motor fuel refineries and terminals will shift from the CAT to now pay a new Motor Fuels Receipts Tax at a rate of .65% effective July 1, 2014.

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- This tax is levied only on the first sale of motor fuel in Ohio.
- Retailers (gas stations) will no longer pay the CAT on receipts from motor fuel.
- This new tax change is expected to have no impact on retail gas prices at the pump.

Real Property Tax

- The 10% and 2.5% 'rollbacks' (reductions) will be eliminated for new and replacement levies passed in November, 2013 and beyond. Existing levies and renewals are not impacted. The state subsidy payments to schools and other local governments will continue but will not increase if new local real estate millage is added.
- The homestead exemption will again become subject to means testing which will limit eligibility to home owners aged 65 years or older with incomes less than \$30,000 beginning with applications for tax year 2014. Currently eligible participants will not be impacted.

Tobacco Taxes

- 'Little cigars' will now be taxed at a rate equal to that levied on cigarettes.

Ohio has made tremendous progress over the past two years in creating new jobs for Ohioans. These most recent tax changes are designed to help us keep our job-creation momentum. The Ohio Department of Taxation will continue to inform you about these changes with upcoming and more detailed information releases and notices published on the department's web site (www.tax.ohio.gov) and the Ohio Business Gateway.

Thank you for your attention and interest.

Sincerely,

Joe Testa
Ohio Tax Commissioner