Ohio | Department of Taxation

Mid-Biennium Budget Review Testimony
Ohio Tax Commissioner Joe Testa
House Ways and Means Committee
March 12, 2014

Chairman McClain, Ranking Member Letson, and members of the Committee, I'm Joe Testa, Tax Commissioner for the Ohio Department of Taxation. Thank you for the opportunity today to testify on behalf of the Administration's Mid-Biennium Budget Review – or M-B-R -- proposals, specifically those that are tax-related.

Before I get into the specifics, I'd like to briefly review some of the more recent initiatives and accomplishments which have laid the foundation of tax relief and modernization that Governor Kasich wants to build on with this MBR and in partnership with this General Assembly.

In 2011, when this Administration took office, Ohio's top income tax rate stood at 5.925%. At that time, Ohio had lost 350,000 private-sector jobs and our unemployment rate was 9%. Governor Kasich was determined to implement strategic, pro-growth policies to create a jobs-friendly climate that allows Ohio to compete with any state or country, and that started with reducing the state income tax rate. I assume that you have heard that Ohio's private sector job creation during this administration is 238,000, recovering 76% of those jobs lost in the previous four years.

We have made progress, but still, over the last 10 years, states with no personal income tax performed best in gross state product, job creation and population growth (see Attachment A). Leading economists believe and economic studies show that high income taxes harm job creation. The Governor mentioned in his State of the State address that Ohio has lost more than $12 billion in income as Ohioans left for states with lower income tax rates. That has cost the state more than $350 million in personal income tax alone (see Attachment B).

In addition, lowering the cost of doing business for our small, and large employers will help them grow and create even more jobs for Ohioans. Another issue, almost unique to Ohio, is the cumulative impact of having multiple levels of government imposing an income tax. Many Ohioans pay municipal income tax where they work and where they live, as well as school district income tax. Added together the top marginal income tax rate in some cases exceeds 11% – way too high (see Attachments C & D). A way we can combat this is to lower the state portion of that combined tax rate. Finally, underlying all this effort to reduce rates is the Governor's philosophy, one I'm confident he shares with many of us. He believes that businesses and individuals work hard to make money, and should keep as much of it as possible to invest in their future business growth and their families. Lower tax rates help to make that possible.

Today, I'm happy to report that businesses and individuals have benefitted from reductions in the state tax burden of $3 billion from the tax reforms passed during Governor Kasich's administration. The estate tax – what the Governor and many others call the death tax – has been eliminated, providing assurance that owners of family farms and Ohio's small businesses can pass their legacy on to their children. The Governor, together with stabilizing the state's finances in 2011, gave a green light to the last installment of a promised 21% income tax cut originally enacted in the 2005 tax reform bill – despite facing a $7.7 billion budget imbalance. Most recently, with the passage of House Bill 59, the biennium budget bill, Governor Kasich and this General Assembly delivered a $2.7 billion net tax cut to Ohio taxpayers, the largest income tax cut in the nation last year – that included a 10% income tax cut and a 50% deduction of businesses income up to $250,000.

I'd like to take a moment and share with you an experience I had recently in Lima that illustrates in real world terms how all of this effort to reduce the tax burden is having an impact. I met an investment counselor in Lima when I was up there recently with a couple other state agencies making a presentation on the 50% small business tax deduction. He told me that his clients were paying attention to our tax reform efforts. He said eliminating the estate tax, by itself, has caused some of his clients to choose to stay in Ohio rather than move to Florida or other lower tax states. In addition, he said the focus on driving down the income tax rates was also making a difference and was causing him to rethink his own plan to move away from Ohio to a lower cost state when he retires. It goes to show that even with our success, there is still more work to do. Too many Ohioans have left the state and far too many are still out of work. As the Governor mentioned in Medina, ". . . if we're not moving forward, we're moving backward."

MBR PROPOSALS

You will hear today and in the near future, the many specific MBR tax proposals that together will deliver continued progress toward a tax system that is fair, efficient, and positioned to help Ohio become a leader in job creation and economic energy. Let me begin with the top priority of these tax reform proposals: reducing Ohio's individual income tax rates to foster continued economic and employment growth in Ohio.

REDUCING INCOME TAX RATES

As Governor John Kasich promised in his State of the State address, and as Director Keen highlighted in his testimony, this MBR provides a path for Ohio to continue to drive down the state income tax rate. The Governor is aiming for a top tax rate of less than five percent. If enacted, this tax reform plan will take the top rate down to 4.88% which delivers another income tax cut to <u>all</u> Ohio taxpayers of 8.5% percent over a three year period. That's a collective income tax cut of more than $2.6 billion. When the Governor took office the top marginal personal income tax rate was 5.925%. Our proposal means all brackets will have been taken down about 18% since the beginning of this Administration.

TARGETED RELIEF FOR LOW- AND MIDDLE-INCOME TAXPAYERS

In addition to that across-the-board cut for all taxpayers, the Governor is proposing an additional $450 million of targeted tax relief for lower- and middle-income taxpayers over the next three years. The relief comes in two forms. First, an expansion of the newly adopted Ohio Earned Income Tax Credit (EITC) from the current 5%, to a credit equaling 15% of the federal earned income tax credit claimed by the taxpayer. The EITC included in H.B. 59 is benefitting an estimated 465,000 tax filers -- 57% of those will receive further tax reduction if our proposal is adopted. The second proposal is to increase the value of the personal and dependent exemption which will lower taxes for taxpayers earning up to $80,000 a year. The exemption is currently $1,700 per person, regardless of the taxpayer's income. The Governor wants to create two new and larger exemptions levels for low- and middle-income taxpayers: $2,700 per individual for taxpayers making up to $40,000 a year, and $2,200 for taxpayers making between $40,000 and $80,000 per year (see Attachment E).

As for the question of how we're able to bring those income tax rates down, it too has multiple parts. It includes modernizing Ohio's severance tax and a mix of tax changes that don't pose harm to job creation like the income tax does.

SEVERANCE TAX MODERNIZED

The Administration continues to believe that now is the time to modernize Ohio's outdated severance tax in light of the advanced horizontal drilling technology and newly accessible shale resources that have created a new industry in the state. Today, Ohio's severance tax on oil and gas generates just over $2 million a year. That's just two million dollars on an industry in the process of extracting products worth billions of dollars from under the soils of Ohio. This must happen in a way that allows all Ohioans to benefit from these newly tapped resources, protects the environment of those areas where the oil and gas is extracted, and provides for the future of that region, while also treating the industry fairly without hampering its ability to be competitive.

We are currently working closely with the oil and gas industry and the Ohio General Assembly to modernize the severance tax. We are pleased that the Ohio House has brought a proposal forward for consideration. This MBR proposes a 2.75 percent tax rate on a driller's actual gross receipts from the sales of the product, providing a simple calculation method. It's clean, easy to compute with accuracy, and fair. Even at this rate, Ohio would be imposing one of the lowest severance tax rates in the country. As you can see on Attachments F and G, at the proposed 2.75% rate, only two states would have lower oil and gas severance tax rates than Ohio. The tax revenues from horizontal drilling would be largely dedicated to helping reduce the income tax rates, but would also give the Department of Natural Resources additional funding for regulatory enforcement, capping orphaned and idle wells, and geo-mapping, while reserving about 20 percent for local communities impacted by oil and gas drilling. That local share will provide more than $165 million of assistance over three years to oil and gas drilling areas. Those monies would be controlled locally to meet their infrastructure needs and to create a Legacy Fund to maximize the long term benefit of the oil and gas activities in those affected communities.

As for the drillers, the Governor's proposal helps them absorb their initial investment in establishing new wells by allowing an exclusion from tax on up to $8 million of gross sales per well over the first three years of production. For small, non-horizontal wells, those that average less than 10 mcf of gas per day, the plan would eliminate severance tax. The current severance tax would remain in place for all other non-horizontal wells. (see Attachment H).

Since last year when we first took up the issue of the need to modernize the severance tax, we have been reaching out and listening to all of the stakeholders. This proposal captures many of their concerns and perspectives. We are simplifying the tax, being responsive to the industry, and delivering some significant assistance to local communities. We look forward to continuing our conversations with all the interested parties and developing a solution that benefits all Ohioans.

Other important pieces of the income tax reduction package are an increase in tobacco taxes and also, for the first time since it was enacted more than eight years ago, an increase in the commercial activity tax rate.

TOBACCO TAXES

First, tobacco taxes. Our MBR proposal would, in year one, produce about $200 million, and in following years more than $300 million for income tax cuts. On cigarettes, the tax would go up sixty cents over two years to $1.85 per pack. The tax rate on Other Tobacco Products, would be raised to a rate equivalent to that on cigarettes, and would be applied to various products including cigars, chewing and pipe tobacco, little cigars and for the first time to e-cigarettes.

I mentioned that these additional tobacco taxes will help reduce the income tax burden. I need to also mention that these new revenues will, in addition, support the Governor's objective of fighting, in his words, an addiction that hides in plain sight – the addiction to tobacco. These tobacco tax increases will absolutely help people decide to quit or not start a tobacco habit.

COMMERCIAL ACTIVITY TAX

Also important toward reaching the goal of reducing the income tax burden is the decision to increase Ohio's low rate commercial activity tax (CAT) from a rate of 0.26 percent to a rate of 0.30 percent. This would be the first rate increase since the CAT was enacted in 2005 and would only impact businesses with gross receipts exceeding $1 million a year. The change would have no impact on businesses exporting their goods and services as the CAT is only applicable to sales made within Ohio. In year three, the CAT increase would total about $278 million. (see Attachment I for a summary of the MBR tax proposals and accompanying revenue impacts).

TAXATION EFFICIENCIES

Until now, I've been focusing on the MBR mission of reducing Ohio's income tax rates. I'd like to shift the focus to some other proposed tax measures designed to create more efficiency and uniformity within the state tax system. I'd like to say that we have already been making some significant strides on the efficiency and productivity front.

In every year since 2010, the Department of Taxation has been processing more returns and revenue with less overhead. Since then, total revenues collected have grown 18% while the number of employees and operating expenses will have decreased by more than 17.5% with the close of Fiscal Year 2015.

The MBR has a number of proposals meant to build on those productivity gains by creating more uniformity and streamlining within the tax system. Those proposals include creating a standardized filing date for motor fuel and other tobacco product taxes, allowing the department to pay interest, and not just charge interest, when appropriate on three additional tax types: kilowatt-hour, natural gas distribution, and the tire fee, and making some Revised Code changes that will facilitate increased electronic filing options and assist timely electronic filers in complying with all filing deadlines. The MBR also includes provisions to aid in the mutual cooperation between the Tax Department, Development Services Agency, the Department of Natural Resources, and the State Treasurer.

STATE TAXATION ACCOUNTING & REVENUE SYSTEM (STARS)

A brief STARS update: Our reset which began April of 2013, in partnership with H.P., has put STARS back on track. The first four tax types are fully functional with the next, sales and use taxes, going live on July 1, 2014. The reset included a $10.5 million credit for the previous programming work which helped to ensure that the service contract cost would not exceed the original $53 million.

BUSINESS TAX REFUNDS

I'd like to close with just a brief update for you on a program we're conducting at Taxation that is giving refunds back to businesses that didn't realize they'd overpaid their taxes. In the past, I'm sorry to say, and for many years those businesses did not always get their money back. If the business didn't ask for a refund, the department didn't tell them that they had an overpayment – it didn't have to by law. That meant, when the statute of limitations ran out, the money would stay with the state. Not anymore. With Governor Kasich's support and encouragement, to date we have returned more than $20 million. I have personally delivered refunds and apologies to businesses in Liberty Township near Middletown, in New Philadelphia, in Salem and right here in Franklin County. At every stop I've heard these business owners say they were surprised to get a call from us but pleased to know the state was being proactive about notifying them about the overpayment. Oh, and they were also happy about getting their money back.

I am appreciative of the support we're getting for the companion bills – H.B. 402 in the House and S.B. 263 in the Senate. Once passed, they will ensure in this and future administrations that business taxpayers always have overpayments returned or credited. I'm grateful for the unanimous vote of support by the Senate and I thank all of you for your hopefully positive consideration of House Bill 402. Thank you also for the opportunity to appear and testify before you. I'd be glad to answer any questions you may have.

ATTACHMENTS

A: Comparison States' GSP as a percentage of Ohio GSP

B: Ohio Income Tax Loss from Outmigration of $12 Billion (1995-2010)

C: Maximum Aggregate State & Local Tax Rates for Ohio and Selected States

D: Maximum Income Tax Rates

E: Ohio Income Tax Reductions (2011 – 2016)

F: Severance Tax Rates on Gas for Ohio and Selected States

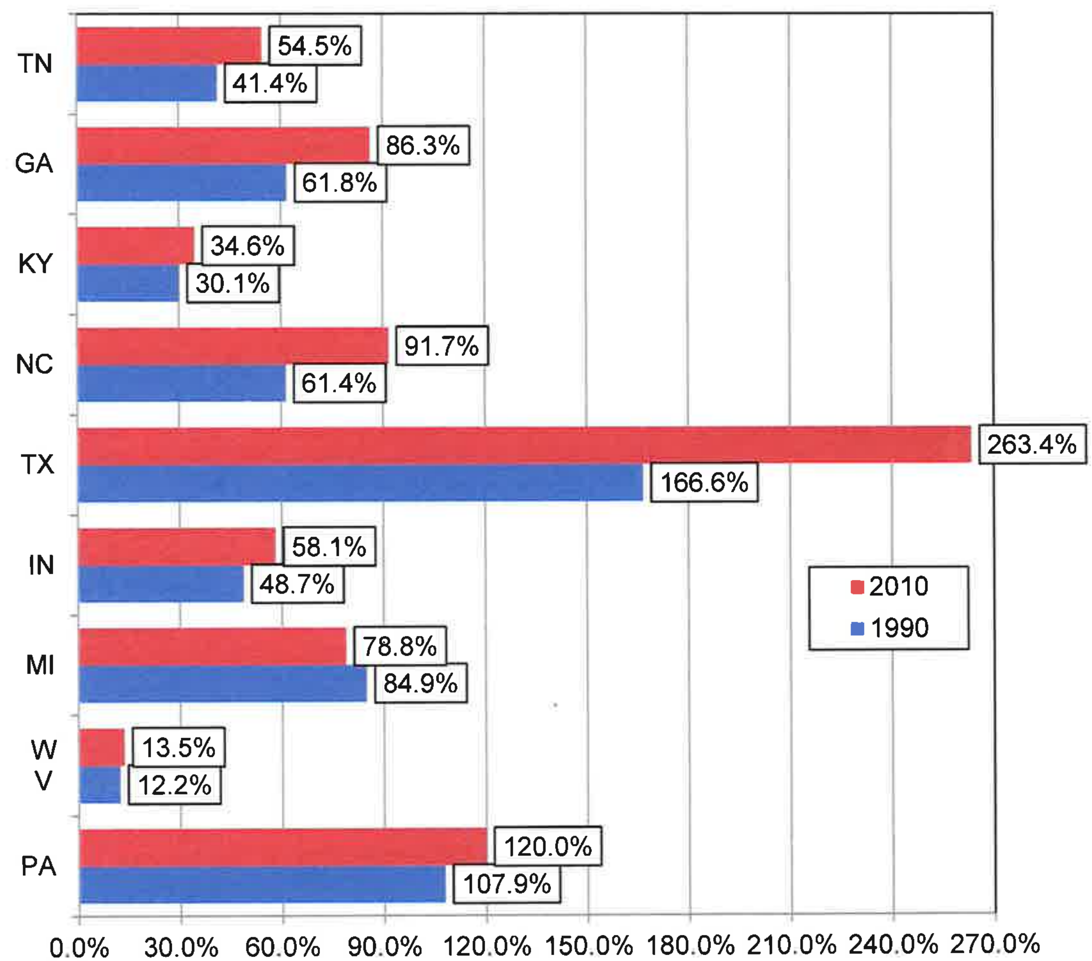
G: Severance Tax Rates on Oil for Ohio and Selected States

H: Current vs. Proposed Severance Tax on Oil and Gas in Ohio

I: Tax Cuts and Reform

ATTACHMENT A

Comparison States
GSP as a Percentage of Ohio GSP
1990-2010



ATTACHMENT B

Table 1: Tax Foundation's estimate of foregone AGI due to outmigration to selected states (those with lower PIT rates than Ohio) 1995-2010.

dollars in millions

States with 0 or lower tax rates than Oho	Aggregate Loss in AGI from Ohio to States with lower top income tax rates	Annual Ohio AGI Loss														
	1995-2010	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Alaska	$ 1.51	$ (0.70)	$ 0.62	$ (3.87)	$ (0.05)	$ (2.05)	$ (3.38)	$ 0.65	$ (1.27)	$ 0.70	$ 1.88	$ 2.73	$ 1.85	$ 0.67	$ 1.11	$ 2.63
Arizona	$ 1,188.08	$ 59.90	$ 82.05	$ 90.79	$ 68.11	$ 77.34	$ 97.94	$ 59.08	$ 62.85	$ 76.30	$ 95.85	$ 95.03	$ 97.85	$ 94.21	$ 66.97	$ 63.81
Colorado	$ 638.30	$ 22.80	$ 33.22	$ 57.16	$ 53.36	$ 63.76	$ 84.83	$ 31.63	$ 15.89	$ 17.16	$ 34.59	$ 49.58	$ 48.75	$ 52.98	$ 37.65	$ 34.94
Florida	$ 7,031.12	$ 209.60	$ 372.44	$ 364.27	$ 521.78	$ 557.72	$ 565.00	$ 487.02	$ 412.85	$ 676.51	$ 586.07	$ 717.41	$ 460.45	$ 519.90	$ 312.23	$ 267.88
Illinois	$ 520.04	$ (1.06)	$ 1.69	$ 17.82	$ 63.78	$ 55.25	$ 61.92	$ 37.48	$ 45.13	$ 20.81	$ 21.28	$ 31.34	$ 39.48	$ 60.85	$ 46.40	$ 17.89
Indiana	$ 519.56	$ 39.00	$ 31.88	$ 18.65	$ 34.80	$ 36.25	$ 19.09	$ 18.09	$ 51.02	$ 30.32	$ 48.10	$ 41.73	$ 41.20	$ 54.75	$ 24.09	$ 30.58
Nevada	$ 552.30	$ 23.00	$ 34.49	$ 52.15	$ 33.24	$ 27.75	$ 30.39	$ 25.39	$ 25.30	$ 39.86	$ 49.46	$ 68.18	$ 79.14	$ 31.03	$ 18.87	$ 14.06
New Hampshire	$ 74.60	$ 4.50	$ 3.20	$ 6.54	$ 13.46	$ 10.05	$ 7.60	$ 9.79	$ 3.65	$ (1.75)	$ 4.32	$ 1.01	$ 1.03	$ 4.98	$ 4.49	$ 1.73
South Dakota	$ 28.91	$ (0.14)	$ 1.35	$ 1.76	$ 1.67	$ 1.91	$ 0.30	$ 3.27	$ 1.58	$ 2.18	$ 0.26	$ 2.52	$ 2.19	$ 1.20	$ 2.73	$ 6.14
Tennessee	$ 765.57	$ 52.04	$ 58.04	$ 39.30	$ 64.34	$ 39.22	$ 36.18	$ 34.07	$ 41.14	$ 44.42	$ 77.69	$ 71.80	$ 57.41	$ 61.13	$ 39.19	$ 49.63
Texas	$ 1,269.16	$ 34.09	$ 63.87	$ 146.07	$ 63.15	$ 58.09	$ 79.02	$ 38.67	$ 31.57	$ 26.31	$ 69.12	$ 126.22	$ 133.70	$ 171.51	$ 110.08	$ 117.72
Washington	$ 220.33	$ 9.17	$ 30.68	$ 22.91	$ (106.01)	$ 14.16	$ 51.04	$ 31.73	$ 3.73	$ 9.76	$ 16.98	$ 37.53	$ 31.21	$ 51.61	$ 15.95	$ (0.13)
Wyoming	$ 101.59	$ 12.65	$ 18.84	$ 3.25	$ 5.60	$ 17.16	$ 5.50	$ 6.86	$ 7.94	$ 0.17	$ 1.95	$ 6.46	$ 4.95	$ 3.69	$ 3.81	$ 2.75
	$ -															
	$ 12,911.06	$ 464.9	$ 732.4	$ 816.8	$ 817.2	$ 956.6	$ 1,035.4	$ 783.7	$ 701.4	$ 942.8	$ 1,007.5	$ 1,251.5	$ 999.2	$ 1,108.5	$ 683.5	$ 609.6
Ohio effective average tax rate		2.970%	2.760%	2.890%	2.760%	2.950%	2.850%	3.060%	3.050%	3.020%	3.000%	2.760%	2.690%	2.510%	2.530%	2.500%

[Based on tax collections divided by FAGI per ODT Annual Reports]

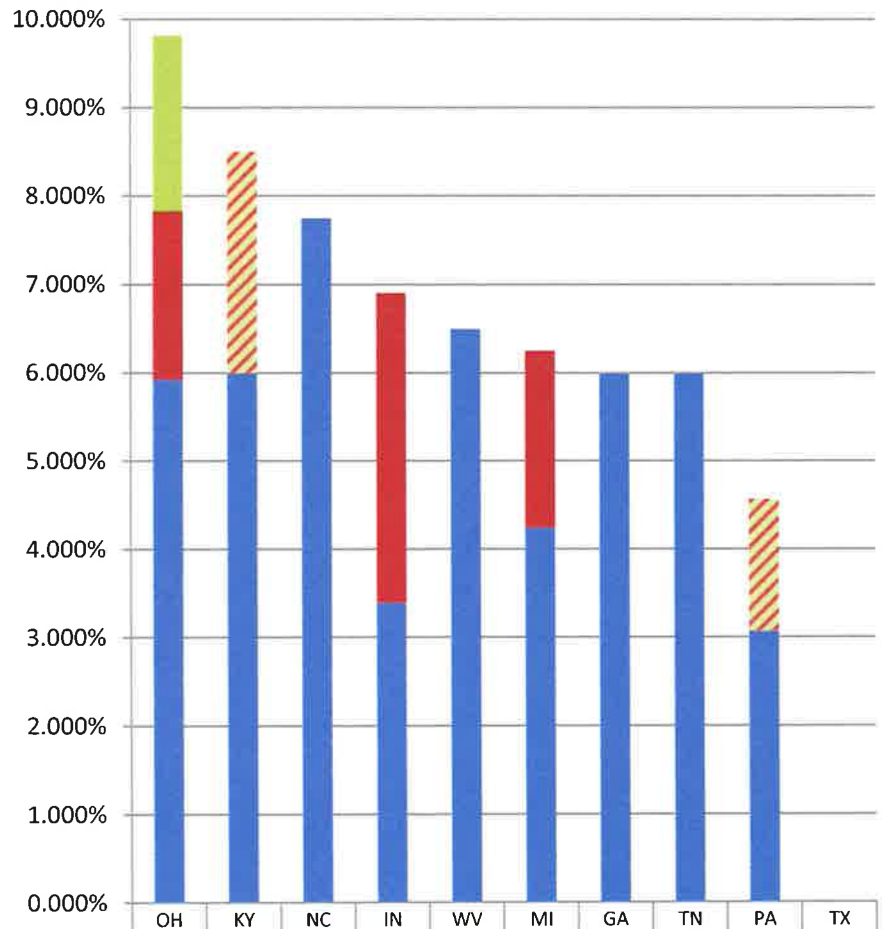
Table 2: Estimated Ohio state income tax revenue lost due to outmigration to selected states (all funds).

dollars in millions

States with 0 or lower tax rates than Oho	Aggregate Loss in Ohio Income Tax from Outmigration from Ohio to States with lower top income tax rates	Annual Ohio Income Tax Revenue Loss														
	FY 1996-FY 2010	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Alaska	$ 0.02	$ (0.02)	$ 0.02	$ (0.11)	$ (0.00)	$ (0.06)	$ (0.10)	$ 0.02	$ (0.04)	$ 0.02	$ 0.06	$ 0.08	$ 0.05	$ 0.02	$ 0.03	$ 0.07
Arizona	$ 33.43	$ 1.78	$ 2.26	$ 2.62	$ 1.88	$ 2.28	$ 2.79	$ 1.81	$ 1.92	$ 2.30	$ 2.88	$ 2.62	$ 2.63	$ 2.36	$ 1.69	$ 1.60
Colorado	$ 17.86	$ 0.68	$ 0.92	$ 1.65	$ 1.47	$ 1.88	$ 2.42	$ 0.97	$ 0.48	$ 0.52	$ 1.04	$ 1.37	$ 1.31	$ 1.33	$ 0.95	$ 0.87
Florida	$ 199.33	$ 6.23	$ 10.28	$ 10.53	$ 14.40	$ 16.45	$ 16.10	$ 14.90	$ 12.59	$ 20.43	$ 17.58	$ 19.80	$ 12.39	$ 13.05	$ 7.90	$ 6.70
Illinois	$ 14.55	$ (0.03)	$ 0.05	$ 0.51	$ 1.76	$ 1.63	$ 1.76	$ 1.15	$ 1.38	$ 0.63	$ 0.64	$ 0.86	$ 1.06	$ 1.53	$ 1.17	$ 0.45
Indiana	$ 14.63	$ 1.16	$ 0.88	$ 0.54	$ 0.96	$ 1.07	$ 0.54	$ 0.55	$ 1.56	$ 0.92	$ 1.44	$ 1.15	$ 1.11	$ 1.37	$ 0.61	$ 0.76
Nevada	$ 15.60	$ 0.68	$ 0.95	$ 1.51	$ 0.92	$ 0.82	$ 0.87	$ 0.78	$ 0.77	$ 1.20	$ 1.48	$ 1.88	$ 2.13	$ 0.78	$ 0.48	$ 0.35
New Hampshire	$ 2.12	$ 0.13	$ 0.09	$ 0.19	$ 0.37	$ 0.30	$ 0.22	$ 0.30	$ 0.11	$ (0.05)	$ 0.13	$ 0.03	$ 0.03	$ 0.12	$ 0.11	$ 0.04
South Dakota	$ 0.80	$ (0.00)	$ 0.04	$ 0.05	$ 0.05	$ 0.06	$ 0.01	$ 0.10	$ 0.05	$ 0.07	$ 0.01	$ 0.07	$ 0.06	$ 0.03	$ 0.07	$ 0.15
Tennessee	$ 21.51	$ 1.55	$ 1.60	$ 1.14	$ 1.78	$ 1.16	$ 1.03	$ 1.04	$ 1.25	$ 1.34	$ 2.33	$ 1.98	$ 1.54	$ 1.53	$ 0.99	$ 1.24
Texas	$ 34.83	$ 1.01	$ 1.76	$ 4.22	$ 1.74	$ 1.71	$ 2.25	$ 1.18	$ 0.96	$ 0.79	$ 2.07	$ 3.48	$ 3.60	$ 4.30	$ 2.78	$ 2.94
Washington	$ 6.19	$ 0.27	$ 0.85	$ 0.66	$ (2.93)	$ 0.42	$ 1.45	$ 0.97	$ 0.11	$ 0.29	$ 0.51	$ 1.04	$ 0.84	$ 1.30	$ 0.40	$ (0.00)
Wyoming	$ 2.89	$ 0.38	$ 0.52	$ 0.09	$ 0.15	$ 0.51	$ 0.16	$ 0.21	$ 0.24	$ 0.01	$ 0.06	$ 0.18	$ 0.13	$ 0.09	$ 0.10	$ 0.07
	$ 363.76	$ 13.81	$ 20.21	$ 23.61	$ 22.56	$ 28.22	$ 29.51	$ 23.98	$ 21.39	$ 28.47	$ 30.23	$ 34.54	$ 26.88	$ 27.82	$ 17.29	$ 15.24

ATTACHMENT C

Maximum Aggregate State & Local Tax Rates for Residents of Ohio and Selected States
2012 Income Tax Rates

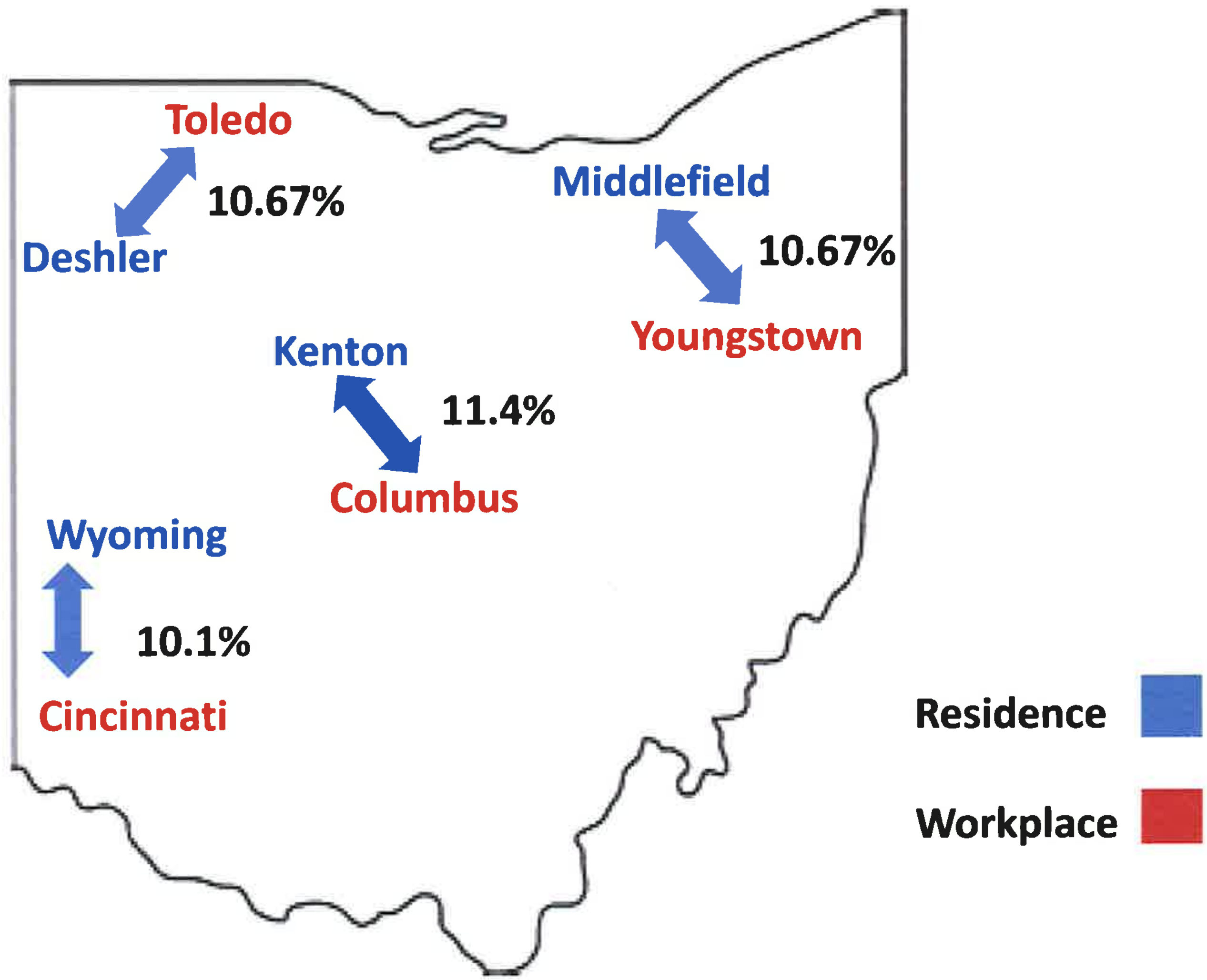


	OH	KY	NC	IN	WV	MI	GA	TN	PA	TX
Joint city/school district		2.50%							1.50%	
School district income tax	2.00%		-	-	-	-	-	-		-
City/county income tax	1.90%		-	3.50%	-	2.00%	-	-		-
State income tax	5.925%	6.00%	7.75%	3.40%	6.50%	4.25%	6.00%	6.00%	3.07%	-

Notes: Ohio does not have a cap on local or school district tax rates. Special authority in some states is granted to certain cities (Philadelphia, Pittsburgh, Detroit) to levy local taxes in excess of the statewide cap. Tennessee's income tax applies only to interest and dividends.

ATTACHMENT D

Maximum Income Tax Rates



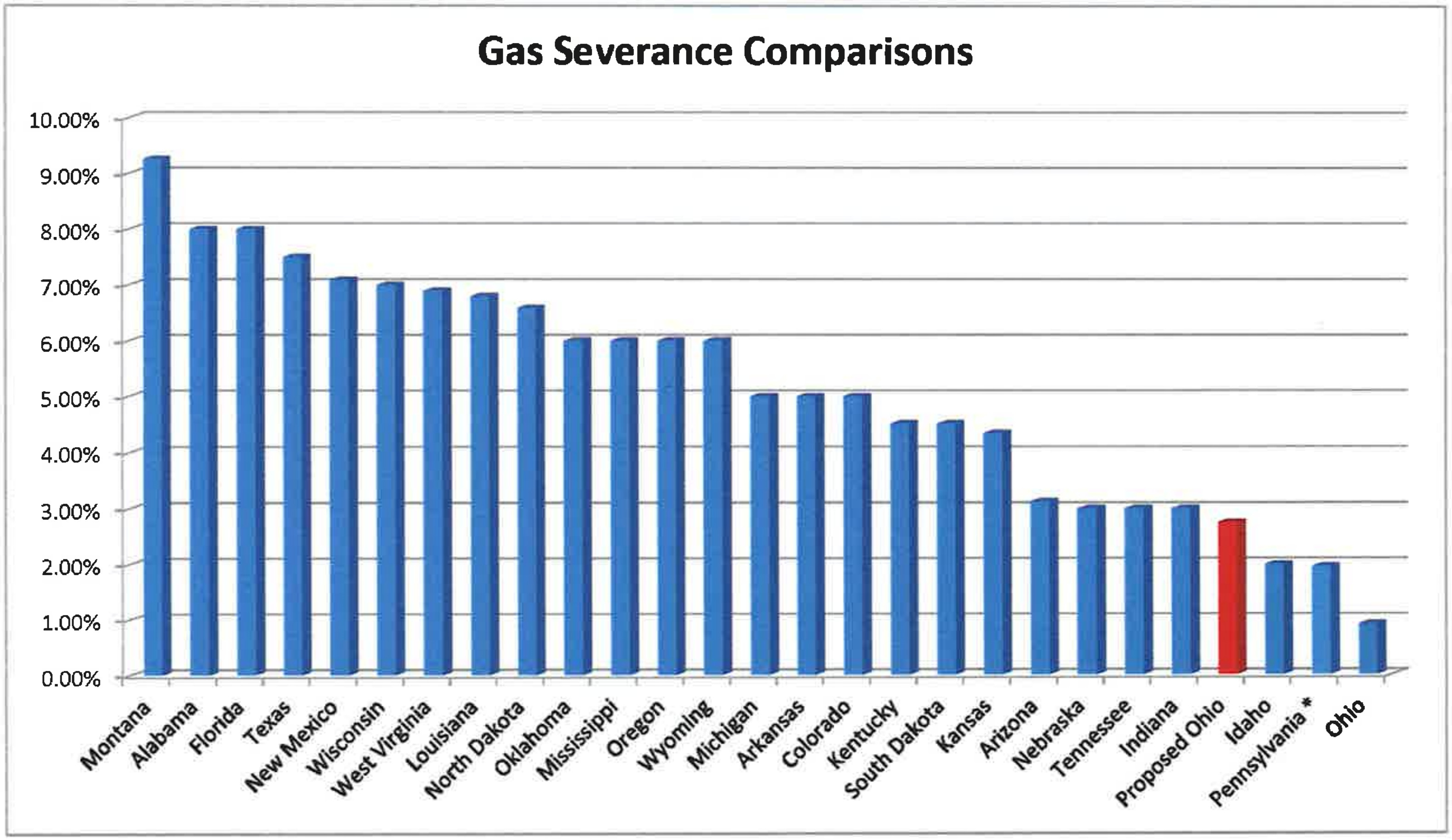
ATTACHMENT E

Ohio Income Tax Reductions* 2011 - 2016

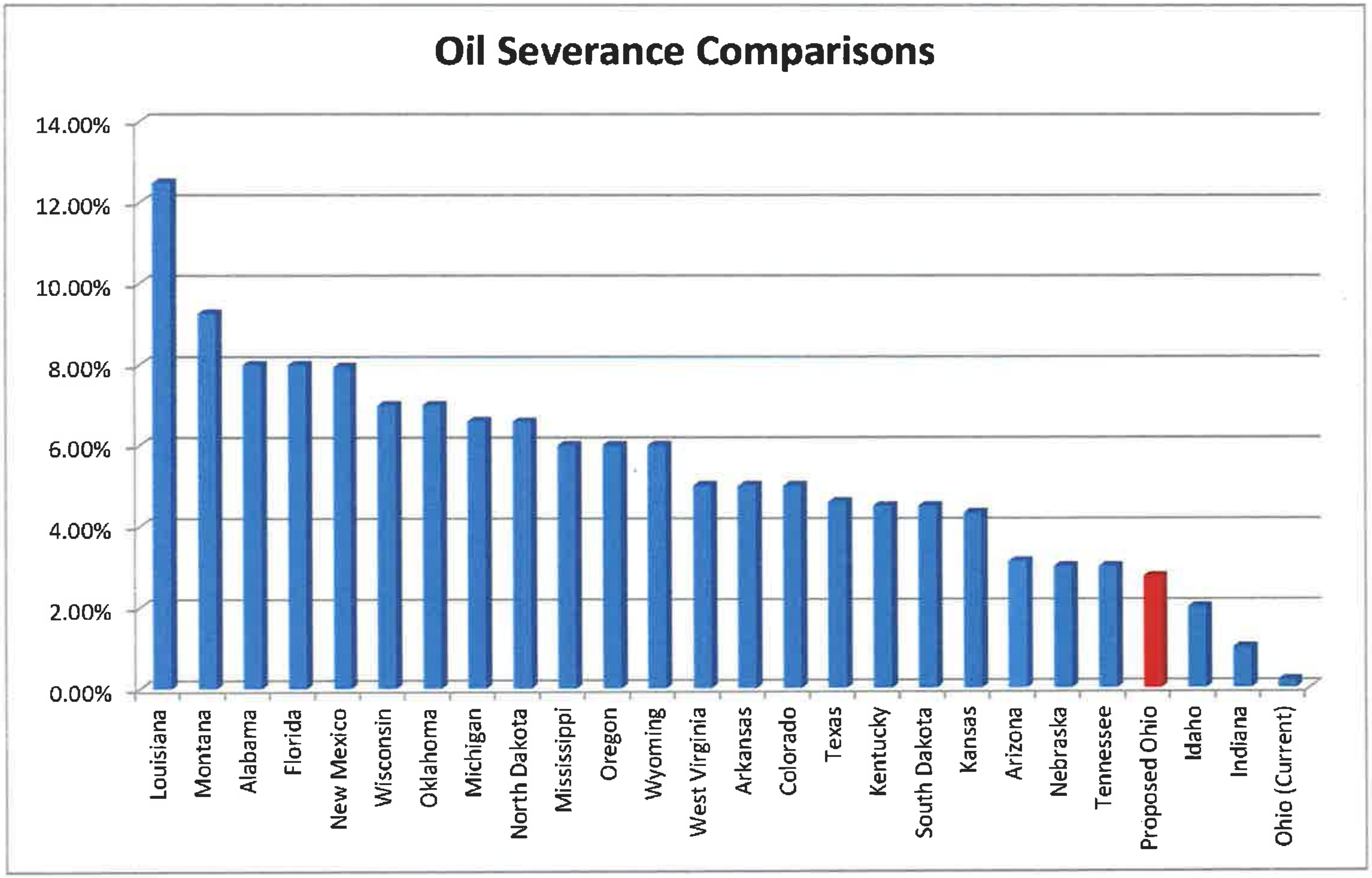
Taxpayer	Annual Income	Tax Year 2011 Liability	Tax Year 2016 Liability after Proposed MBR Changes*	Total Tax Relief	Percent Change
Single parent with one child - Eligible for Earned Income Tax Credit	30,000	$540.48	$181.70	$358.79	-66.4%
Married couple with one child (median income)	$60,000	$1,441.96	$1,160.14	$281.82	-19.5%
Married couple with two children (median income)	$73,000	$1,843.70	$1,487.51	$356.19	-19.3%

* includes tax cuts, exemption increases and earned income tax credit.

ATTACHMENT F



ATTACHMENT G



ATTACHMENT H

Severance Tax Comparison

	Current Severance	Proposed Severance
Vertical Wells	Natural Gas - $0.03 per Mcf Natural Gas Liquids - $0.03 per Mcf Oil - $0.20 per barrel Low Volume Wells – No Differential in Tax	Natural Gas - $0.03 per Mcf Natural Gas Liquids - $0.03 per Mcf Oil - $0.20 per barrel Natural Gas – Production less than 10 Mcf/day is exempt from severance tax determined by quarter
Horizontal Wells	Natural Gas - $0.03 per MCF Natural Gas Liquids - $0.03 per MCF Oil - $0.20 per barrel	Natural Gas Natural Gas Liquids } 2.75% of Gross Receipts Oil
Cost Recovery	No Cost Recovery	Up to $8 million Cost Recovery during first three years of production ($4M,$3M,$1M) by quarter
Distribution	Proceeds to ODNR for Oil and Gas Regulation, Geological Mapping, and Regulatory Cost Recovery	After ODNR funds for Oil and Gas Regulation, Geological Mapping, Regulatory Cost Recovery, and Orphan Well Mitigation 80% - General Fund to be Used for Income Tax Reduction Fund 20% - Communities Impacted by Drilling 50% - Local distribution by order of various County Budget Commissions 25% - Infrastructure Fund distribution by direction of newly-created Regional Commission 25% - Legacy Fund distribution after 2025 by direction of Regional Commission

ATTACHMENT I

Tax Cuts and Reform

(All figures in millions of dollars)

Individual Income Tax	**FY 15**	**FY 16**	**FY 17**
Rate reduction from current law *(total)***	3.5%	7.0%	8.5%
Revenue reduction	($319)	($665)	($842)
Withholding adjustment	($143)	($151)	($68)
Increasing Ohio EITC to 15% of federal EITC	($40)	($40)	($40)
Increasing personal exemption *(from $1,700 to $2,700 for OAGI <=$40,000, and to $2,200 for OAGI between $40,000 and $80,000)*	($111)	($111)	($111)
Total Income Tax Reduction	**($612)**	**($967)**	**($1,060)**
Tobacco taxes			
Cigarettes *(Increase per-pack tax to $1.85 in two 30-cent increments over two years)*	$117	$226	$231
Floor tax *(Cigarettes already in inventory)*	$30	$30	$0
Other Tobacco Products *(Equalize rate & increase as cigarette rate increases: 41% in FY15 & 49% in FY16)*	$52	$72	$73
E-cigarettes	$5	$6	$6
Total Tobacco	$204	$334	$310
CAT *(increase rate from 0.26% to 0.3%)*			
Total CAT	$196	$269	$278
Severance Tax *(state and local revenue, gross receipts base, 2.75%)*			
Total Severance Tax	$121	$304	$449
Total Revenue Enhancers	$521	$907	$1,037
Net Tax Cut	($91)	($60)	($23)

*new rates for top brackets are 5.203% in 2015, 4.96% in 2016 and 4.88% in 2017.