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Governor DeWine Signs Two-Year State Budget

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Last week, Governor Mike DeWine signed the $74 billion state operating budget, which builds on the Governor's vision for the future. The two-year spending bill (HB 110), includes nearly $162 billion in all funds appropriations.

Gov. DeWine said the budget reflects the goals he set in his first and only State of the State address to invest in the state's children, workers and infrastructure. "This budget does that," he said.

Lt. Gov. Jon Husted said the economic development efforts and tax changes will help the state meet the new opportunities presented as the world emerges from the COVID-19 crisis. The budget bill, he said, is "an aggressive attempt to make Ohio and economic leader."

The final version of HB 110 includes numerous pro-business policy initiatives that will improve Ohio's business climate, including a provision that will eliminate the sales tax on employment services. Ohio is one of only a few states that require sales tax on the contract of staffing provided to third parties to meet temporary needs of those third-party businesses. The elimination of this tax on hiring will make Ohio more competitive with our neighboring states, and it is estimated that the repeal will save employers who rely on staffing services more than $300 million over the course of the next two years alone.

Additionally, the budget contains three clarifications related to special municipal income withholding rules first adopted in March 2020 when employees began to work remotely in response to the COVID-19 pandemic. These clarifications: 1) make Dec. 31, 2021 the cut-off for ending these withholding rules; 2) protect employers against nexus expansion for net-profit taxes and provides penalty and interest relief on withholdings; and 3) narrows the documentation or certification an employer must produce if an employee files a refund claim.

Other provisions of interest include:

- New income tax deductions for certain venture capital gains and capital gains received for the sale of a business;
- A permanent ban on local efforts to ban or tax one-time use plastics;
- $350 million for brownfield remediation and $150 million for a site revitalization program for non-brownfield sites;
- A prohibition on local governments from imposing gross receipts taxes on marijuana businesses;
- An increase in the number of years transformational mixed-use development credits will be made available for developers;

- New tax credits for companies that bring “megaprojects” that have at least $1 billion in fixed-asset investments or create at least $75 million in Ohio employee payroll;
- The removal of the NAICS code for each business listed on IT-BUS used to report business income; and
- The removal of language that would have changed the valuation of rental property eligible for federally assisted low-income housing.
- Beyond these important business issues, major items of significance include a $1.7 billion personal income tax cut and substantial changes to how Ohio funds K-12 education.
- Allow college athletes to profit off their name, image and likeness.
- Authorize $250 million to fund the state’s Broadband Grant program.

The tax cut, potentially one of the largest income tax cuts in Ohio history, reduces rates for all personal income tax brackets starting with tax year 2021 by 3 percent and removes one bracket altogether, leaving Ohio with just four brackets and a top income tax rate of 3.99%. Just a decade ago, Ohio had nine brackets and a top rate of 5.925%. In addition, the new amount of income shielded from personal income tax will increase to $25,000, up from $22,150.

The school funding changes were a priority House Speaker Bob Cupp and strongly supported by most education organizations. They establish a new formula for how per pupil costs are calculated for each school district and for determining each district’s capacity for generating local school funding based on property value and income factors within each community. However, because lawmakers are concerned about the potential for large increases in spending in future budget years, the formula is limited to this particular budget period. It also increases maximum scholarship amounts for Ohio’s Educational Choice Scholarship (EdChoice) Program, which provides students from designated public schools the opportunity to attend private schools.

HB 110 was ultimately approved by bipartisan majorities in both chambers, 32-1 in the Senate and 82-13 in the House.

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