The Ohio General Assembly has rejected Governor Kasich’s proposed tax on architectural and most other services as a way to fund a wide-ranging tax overhaul aimed at making the state more attractive to business development.

Governor’s Proposal
Last February Kasich proposed to extend the sales tax to most services (as well as a 4/4% severance tax on horizontal wells) in order to pay for a permanent 20% personal income tax cut over three years and a reduction of the state sales tax rate from 5.5 percent to 5 percent. He also proposed a deduction of 50 percent of the business income (capped at $375,000 annually) for small businesses that are categorized as "pass through entities" earning up to $750,000. Also helping to pay for the tax reductions was an anticipated $2 million expected surplus in the state’s coffers on June 30th.

The governor said he wanted to move Ohio away from what he perceives as an overreliance on the income tax and a sales tax system that has fundamental inequities to a restructured tax system "that ... relies less on income and more on consumption and resource extraction."

AIA-Ohio Launches Grassroots Lobbying
In response to the Governor’s proposal AIA Ohio launched a grass roots lobbying effort aimed at members of the House of Representatives. AIA Ohio asked legislators to reject the architectural tax that would place Ohio architects at a competitive disadvantage when Ohio architects are still suffering from the last recession. We pointed out the pyramiding of tax that would occur when the service tax on sub-contractors was added to the architect’s fee; the drastic effect the tax would have on Ohio’s border city firms; the cost of administering a new tax; and the fact that historically several states had enacted an architectural service tax only to quickly repeal them when these problems were revealed.

House Rejects Service Tax
In its wisdom, the House of Representatives rejected the expanded service tax, reduced the proposed personal income tax reduction to 7% and scuttled the proposed reduction in the small business income tax.

Senate Has Own Ideas
The Senate agreed with the House’s rejection of the proposed architectural service tax. However, it felt that the Governor’s proposed small business income tax cut would help to boost the economy more than a cut in the personal income tax. So the Senate replaced the House’s 7% income tax cut with the Governor’s originally proposed $1.4 billion targeted tax cut for small businesses.

Conference Committee
On June 24 the Conference Committee of the House and Senate compromised on a 10%, personal income tax cut phased in over three years, starting with an 8.5 percent cut for the current tax year. Small businesses will receive 50 percent exclusion for the first $250,000 of income from pass-through entities, versus the $750,000 threshold proposed by Gov. John Kasich and included in the Senate-passed budget.

Paying for the tax cuts
Conferees opted for a variety of tax changes to pay for the two cuts: The state sales tax rate will increase by a quarter percent.
The General Assembly retained the $1 million Commercial Activity Tax (CAT) tax threshold, for which $150 a year is due, but added a “variable” minimum tax to businesses with higher incomes. Under the new system, the minimum tax for businesses between $1-2 million is $800; from $2-4 million is $2,100; and from $4 million and above is $2,600.

In addition, the state will prospectively pull back from paying a share of Ohioans’ local property taxes. For new or replacement levies, the plan would eliminate the 12.5 percent property tax rollbacks. Existing and renewal levies would not be affected.

Other changes include introducing a new $30,000 threshold for future qualifiers for the senior citizen property homestead exemption; eliminating tax breaks for gambling losses and on the sale of magazine subscriptions and digital goods; creation of an Ohio Earned Income Tax Credit, set as a percentage of a similar federal credit; and raising tobacco taxes on some non-cigarette products to the same rate at which cigarettes are taxed.

**Ohio Architects Board Proposes Housekeeping Bill (SB 68)**

AIA Ohio supports the passage of SB 68, which proposes primarily housekeeping changes to the architect’s licensing law. Senator Tim Schaffer introduced the bill, which has passed the Senate unanimously and which also includes changes to the Landscape Architect’s law.

*The proposed changes to the architect’s law include:*  
- Removing a provision allowing an Architect whose license has been revoked to apply for reinstatement after six months. Licenses should be revoked after only the most egregious of offenses, and should not be a lesser sanction than suspension.

  - If a licensed Architect fails to request a hearing after proper notification, changes allow the Board to proceed without an adjudication hearing. This will save the Board the cost of an administrative hearing. All provisions of Chapter 119, the Administrative Procedures Act, must still be followed.

**Tax Credit for Rehabbing Vacant Industrial Sites (HB 135)**

The House Economic Development and Regulatory Reform Committee is hearing testimony on HB 135, which would authorize a nonrefundable credit against the income tax and certain business taxes for the rehabilitation of a vacant industrial site.

All witnesses said the legislation would provide an important impetus for the rehabilitation of 2,101 industrial buildings in Ohio that are 100 percent vacant. Indiana and North Carolina have passed similar tax credits.

Some who testified compared the legislation to Ohio’s existing Historic Preservation Tax Credit and New Markets Tax Credit Program. A study by Cleveland State University’s Maxine Goodwin Levin College of Urban Affairs projects that the Historic Preservation Tax Credit will produce $10 billion in economic impact and 6,900 jobs between 2007 and 2025.

**Residential Contractor’s Licensing (HB140)**

The House Commerce, Labor and Technology Committee is taking testimony on HB 140 which would establish licensing for residential construction contractors.

Rep. Patmon, (D-Cleveland), introduced the bill, which would require residential and nonresidential construction contractors to obtain a state license. The bill would also create the Residential Builders’ and Maintenance and Alteration Contractors’ Licensing Board to regulate
licensure and performance of contractors. Patmon listed a number of skills that would be licensed under the bill, including but not limited to: Carpentry, Concrete work, Swimming pool installation, Waterproofing basements, Excavation, Masonry and Roofing.

Patmon believes that it's not right that the only thing a contractor must do before starting work is obtain insurance and a bond, without any other necessary qualifications.

**OFCC Advisory Committee**

AIA Ohio’s OFCC Advisory Committee met June 13 and continued discussions with OFCC officials relative to the OFCC A/E Agreements as well as the continuing implementation of construction reform by the new agency. If you have subjects you would like included on future Advisory Committee agendas, please send them to me in writing. Future meetings have been scheduled for September 19 and December 18.