

NOTE: "Few states outside the South and Mountain West have recovered faster from the financial crisis than Ohio..."

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REVIEW & OUTLOOK

A Buckeye Tax Reform

Kasich joins the queue of income-tax cutting GOP Governors.

Few states outside the South and Mountain West have recovered faster from the financial crisis than Ohio, and now Governor John Kasich is betting on tax reform to keep it going. He's another GOP statehouse executive creating a sharp policy contrast with California, New York—and Washington, D.C.

The plan's centerpiece is a 20% cut over three years in all of the state's nine income tax rates. The top rate would fall to 4.725% from 5.925%. Ohio allows its cities to impose add-on income taxes, so the current rate in cities like Cleveland can reach 8.4%.

The plan would also provide an income-tax deduction on half of all small business and Subchapter S income up to \$750,000. This effectively cuts the tax rate on job creators in half, but the income cap sounds like something from the Obama White House. Businesses that earn more than \$1 million are most likely to expand operations from such a tax cut and should get it too.

To offset any lost revenue, Mr. Kasich wants to raise extraction taxes on drilling in the Utica Shale. The oil and gas industry hates the idea, but this makes more economic sense than taxing work and investment across the economy. The new severance tax would raise about \$500 million a year and be in line with those of other energy-tax states. Drillers should note that extraction taxes in Alaska, North Dakota, Texas and Wyoming help to keep income taxes low, while funding schools and police, and creating a political constituency in favor of drilling.

Mr. Kasich also wants to reform the sales tax, cutting the rate to 5% from 5.5% in exchange for taxing about 75 goods and services that are currently exempt. Barbers, accountants, lawyers, bowling alleys and funeral homes would now be taxed. An avalanche of lobbyists has descended on Columbus to protect these tax-free fiefdoms, and the Governor could get buried.

For the rest of the editorial click [here](#).

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