

Four more years

How the election will impact your business **Interviewed by Roger Vozar**

As leaders in Washington, D.C., head toward a fiscal cliff, their counterparts in Columbus, Ohio, also are looking at major budget changes for the state.

At both the state and federal level, taxes will be at the forefront of discussions, says Steve Tugend, chair of the Government and Legislative Affairs Practice Group at Kegler, Brown, Hill & Ritter Co., LPA.

“At the federal level, the candidate who was less likely to raise taxes was defeated, so the risk that businesses will see increased tax liability has increased significantly,” says Tugend. “At the state level, the legislature has no interest in raising taxes, and there will probably be a proposal to lower the income tax rate.”

Smart Business spoke with Tugend about the recent election results and how they will impact Ohio businesses.

How will the recent election impact the Ohio legislature?

There are going to be some changes. Leadership in the Ohio Senate will change, while William Batchelder will remain speaker of the House. Leadership in the Senate will change, with Tom Niehaus retiring because of term limits and Keith Faber becoming the new president. The transition to a Faber presidency will be a relatively orderly one and it is highly unlikely there will be a contested vote, as the Republican Caucus worked out the issue of leadership over the last couple years.

Because the governor is from the same party as the leadership in the legislature, he, by and large, sets the state’s public policy agenda on larger issues.

What major proposals do you expect from Gov. John Kasich in the upcoming term?

Two issues are particularly important because of their breadth and depth. The first is tax reform, and it is anticipated that the governor will introduce a plan to further cut the state’s personal income tax rate, from a top rate of 5.925 percent to a level that is under 4 percent.

When you are proposing to cut an income tax rate that significantly, the result is that the state will forego a significant amount of revenue. There are only two things that can be done to make up for that loss, which must be done because the state is constitutionally obligated to bal-



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ance its budget. One, the state can impose taxes on goods and services that had not previously been taxed. As a result, businesses that offer services that are not currently subject to a state income tax should keep a close eye on the state budget to see what will be proposed. Alternatively, spending can be cut.

The second major issue that the governor is expected to address in the next term is school funding reform, although the specifics of that are not yet known.

Another issue is uniformity in the way municipal income taxes are calculated. Ohio has 600 entities that charge municipal income taxes, using 300 different forms, which business groups argue creates a significant administrative burden for Ohio businesses with employees who earn income in multiple jurisdictions. Many in the General Assembly view this administrative burden as an impediment to growing businesses within Ohio, and believe that the issue needs to be addressed.

What will happen at the federal level as a result of the election?

The fiscal cliff — the looming, automated, arbitrary cuts to government spending — will create a very imprecise and nega-

tive effect on the federal budget. The consensus is that the worst alternative is to do nothing. No matter what the solution is, it needs to be a long-term solution and not another temporary one.

Businesses are most concerned about the tax code. Historically, the solution to a budgetary challenge commonly results in an exemption or deduction in the tax code that lasts four to five years, which then expires unless it is reauthorized by Congress. That does not generate a feeling of certainty or predictability. Businesses want a realistic solution grounded in good fiscal policy that will set the long-term tax and spending structure for this country.

The fiscal cliff was not designed to be a well-thought-out policy; it was designed as a hammer to inspire Congress to spring into action and put together a long-term plan that works.

What do you expect to happen regarding the fiscal cliff?

Congress may decide to pass legislation that will postpone the cliff until a later date, but it also may negotiate a settlement. The fact that the president was re-elected and that neither legislative chamber will see a change in its partisan leadership increases the possibility that a compromise can be reached this year.

There is more likely to be common ground in two general areas — reform of entitlements such as Medicare and Medicaid, and tax reform resulting in reducing or eliminating some of the deductions or exemptions in the tax code. Those are the general areas that are most likely to find agreement between the negotiating parties.

The same major players are involved, so why would there be an end to the gridlock that has occurred?

There is no longer a president of the U.S. that the Republicans are looking to defeat in four years. That changes their mindset. Equally important, there is no longer a president who can and will run for re-election. The president may be increasingly inspired by the need to compromise because of a desire to leave a positive legacy for the country. <<

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