AMENDED SUBSTITUTE HOUSE BILL 96: PERSONAL INCOME TAX AND PROPERTY TAX PROVISIONS

With the signing of Amended Substitute House Bill 96 on June 30, 2025, Governor Mike DeWine set in motion a significant tax overhaul affecting income tax, property tax, and sales and use taxes. The new biennial budget for fiscal years 2026–2027 moves the state to a flat personal income tax, continues, and in some cases, bolsters property-tax relief, shifts additional General Revenue Fund dollars to local governments, and broadens the sales tax base by eliminating numerous exemptions and reductions. Below is a concise look at what changed, why it matters, and the steps taxpayers and advisers should take now.

Personal Income Tax Rate Changes

The bill introduces significant reforms to Ohio's personal income tax system, primarily by transitioning from a graduated rate structure to a flat tax for most taxpayers. These changes phase in over tax years 2025 and 2026. The transition to a flat tax rate includes the following:

For tax year 2025, the 2.75% rate is retained for income between $26,050 and $100,000. The top marginal rate for income over $100,000 is reduced from 3.5% to 3.125%. For tax year 2026 and beyond, a single flat rate of 2.75% applies to all taxable income over $26,050. This change eliminates the higher bracket, simplifying the tax structure for most taxpayers.

Inflation indexing for both income tax brackets and personal exemption amounts is suspended for tax years 2025 and 2026. This means that bracket thresholds and exemption amounts will not be adjusted for inflation during these years.

Credits and Deductions

Eligibility for the joint filer income tax credit and personal, spousal, and dependent exemptions is limited based on modified adjusted gross income (MAGI). For 2025, the MAGI limit is $750,000, and for 2026, the MAGI limit is reduced to $500,000.

The tax commissioner is required to adjust employer withholding tables to reflect the new tax rates.

Transition to Flat Tax

The move to a flat tax is not without trade-offs. The bill is a substantial overhaul of Ohio's personal income tax system, phasing in a flat tax rate of 2.75% for most taxpayers and eliminating the graduated rate structure above the exemption threshold. The legislation also temporarily suspends inflation indexing, restricts certain credits and exemptions based on income, and mandates corresponding adjustments to employer withholding. These changes are designed to simplify the tax code and reduce overall tax liability for Ohio residents.

Property Tax Relief Measure

While the new budget does not change property-tax rates directly, it reaffirms the state's commitment to reimburse school districts and other local entities for the cost of existing rollbacks and exemptions. The provisions will have significant fiscal implications for school districts, local governments, and the state, particularly in state reimbursement. The principal property tax relief measures are the continued funding to cover the state's costs incurred from the property tax rollback, homestead exemption and payments required to be paid by the department of education to the school district. The funds will be distributed to school districts as if it had been paid as real property taxes.

The bill increases the percentage of General Revenue Fund (GRF) tax revenue allocated to the Local Government Fund. This adjustment is projected to provide $530.9 million in FY 2026 and $541.2 million in FY 2027. The increased funding supports local government budgets and may reduce the need for local property tax increases.

Sales Tax Exemptions Repealed

The bill eliminates or restricts several sales and use tax exemptions and reductions. Effective January 1, 2026, the following sales and use tax exemptions are repealed:

- The exemption for vehicle rental fees provided to owners or lessees of vehicles under repair or service (where the payment is reimbursed by the service provider) is repealed.
- The longstanding exemption for sales of newspapers is repealed.
- Sales of refrigerated food vending machines will no longer be exempt.
- The exemption for sales of advertising material or catalogs that price and describe property offered for retail sale is repealed. This also includes items used in printing such materials and equipment primarily used to accept orders.
- The exemption for machinery, equipment, and material used in the production of printed materials for sale is repealed.
- The exemption for property used in acquiring, formatting, editing, storing, and disseminating data or information by electronic publishing is repealed.
- The exemption for telecommunications services used directly and primarily in the operation of qualified call centers is repealed.
- The exemption for the sale and installation of agricultural land tile and portable grain bins is eliminated, increasing costs for farmers and agribusinesses.

Additional Sales Tax Changes

The 25% refund of sales tax paid by electronic information service providers on purchases of computers and related electronic equipment is repealed. The bill prohibits the Tax Credit Authority from entering into new agreements to award a sales and use tax exemption for sales of certain materials used in computer data centers after October 1, 2025. Existing agreements remain in effect.

Effective January 1, 2026, the prompt payment discount for vendors is capped at $750 per vendor's license per month for all sales except motor vehicles. The current discount rate of 0.75% remains, but the cap limits the total monthly discount a vendor may claim. The discount for motor vehicle sales remains unlimited.

Interest will no longer be paid on sales and use tax refunds for payments made under a direct payment permit, for refunds allowed on and after the bill's effective date. The bill's effective date for normal permanent law provisions is September 30, 2025.

The bill also eliminates interest on county sales and use tax refunds, but interest remains available for refunds of state and transit authority sales and use taxes.

The definition of "casual sale" (generally exempt from sales and use tax) is clarified to include both in-person and online sales, except for sales by auctioneers. For auctioneers, only sales made at the auctioneer's physical place of business may qualify for the exemption.

Why the Changes Matter

- **High-income taxpayers** may benefit from lower marginal rates, but income caps on credits and exemptions could offset some of the savings.
- **All taxpayers** face the prospect of bracket creep during the two-year suspension of inflation indexing, making proactive income and deduction planning more valuable than usual.
- **Employers** that do not update withholding tables risk under-collecting tax, leading to penalties for the company and surprise balances due for employees.

- The changes to the state's sales and use tax policy broaden the tax base by eliminating numerous exemptions and reductions mostly impacting publishing, agriculture, information technology, and data centers.

Action Steps

Now is the time to assess how the budget bill affects your 2025 and 2026 tax position. Consider the following:

- Run income-projection models to identify whether accelerating or deferring income and deductions into 2025 or 2026 will yield a lower overall liability.
- Reevaluate eligibility for personal, spousal, and dependent exemptions under the new MAGI caps.
- Confirm with payroll providers that Ohio withholding tables will be updated.
- Businesses impacted by the repeal of the sales and use tax exemptions should assess the impact of these changes and consider appropriate planning measures before the effective dates.

How We Can Help

Our state and local tax professionals can model the flat-tax transition, quantify the impact of MAGI caps, and develop timing strategies tailored to your situation. Our team can perform a sales and use tax check-up to determine and quantify the impact of these changes and review your overall compliance environment. We also assist employers with payroll-system updates and provide revenue-forecasting support to local governments.