Bill Analysis

Bethany Boyd *Legislative Service Commission*

S.B. 162

127th General Assembly
(As Introduced)

Sens. Stivers, Goodman, Coughlin, Smith, Schuring, Schaffer

BILL SUMMARY

- Exempts from the income tax all unearned income of individuals who are 65 years of age or older.
- Eliminates the $50 per-return income tax credit for individuals who are 65 years of age or older.

CONTENT AND OPERATION

Tax only the earned income of persons age 65 or older

(R.C. 5747.01(A)(24))

The Ohio income tax base adopts the comprehensive definition of "income" that is the basis for the federal income tax, so, with some exceptions, the Ohio income tax base incorporates almost all the various forms of income included in the federal tax base.[1] Thus, the Ohio income tax base includes most forms of "earned" income arising from an individual's labor and many forms of "unearned" income arising from rights in property (e.g., interest, dividends, capital gains) or received under a pension, retirement, or similar plan.

The bill narrows the Ohio income tax base for individuals age 65 or older by allowing them to deduct all income other than "earned income." For the purpose of the deduction, earned income is defined as wages, salaries, tips, deferred compensation, other employee compensation, and self-employment income.

[1] The most notable forms of income not included in the Ohio tax base are Social Security benefits and disability and survivor benefits to the extent they are taxable under the federal income tax (R.C. 5747.01(A)(4) and (5)).

The deduction applies to a qualifying individual's taxable year beginning on or after January 1, 2007. A taxpayer may deduct unearned income under the deduction only if it has not been otherwise deducted or excluded in computing federal or Ohio adjusted gross income.

The deduction may be taken by any taxpayer who attains the age of 65 during the taxpayer's taxable year.

To the extent that a taxpayer deducts income that also qualifies as retirement income, the deduction may decrease the taxpayer's retirement income tax credit (under R.C. 5747.055) because that credit depends on the amount of nondeductible retirement income.

Elimination of elderly taxpayer credits

(R.C. 5747.02(D)(3), 5747.05(C) to (F), 5747.08, and 5747.98)

Current law authorizes individuals 65 years of age or older to claim a $50 credit against the income tax each year and for each income tax return filed. Alternatively, if the individual receives a lump-sum distribution from a retirement plan, the individual may choose to take a one-time credit equal to $50 times the number of years in the individual's expected remaining life (computed according to federal income tax annuity tables).

The bill eliminates the $50 per-return credit and the corresponding lump-sum credit. (R.C. 5747.05(C), (D), and (F).) The bill also eliminates obsolete language that authorized a credit for lump-sum distributions of retirement income for persons younger than 65 years if the distribution occurred in a taxable year ending before August 1991. (R.C. 5747.05(E).)

HISTORY

ACTION	DATE
Introduced	05-08-07

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