Ohio Legislative Service Commission

Bill Analysis

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H.B. 98

129th General Assembly
(As Introduced)

Reps. Hollington, Boose, Blair, Gonzales, Martin, Derickson, Kozlowski, Young, Slaby, Ruhl, Combs, Baker

BILL SUMMARY

- Reduces the income tax rate on non-earnings income of individuals 70½ years old or older to 1%.

CONTENT AND OPERATION

Income tax rate reduction

The bill allows individual taxpayers who are 70½ years old or older to elect to have "unearned" income taxed at a rate of 1% rather than at the existing statutory rates, beginning in 2013.[1] For 2013, the existing rates range from .587% on Ohio adjusted gross income (AGI) of $5,000 or less to 5.925% on Ohio AGI exceeding $200,000.

Unearned income

Under the bill, "unearned" income is any income other than wages, salaries, tips, deferred compensation, other employee compensation, or net earnings from self-employment. Unearned income is deducted from Ohio AGI and taxed at a rate of 1%. Earned income is taxed at the existing marginal tax rates.

Tax computation

A taxpayer claiming the 1% tax rate must deduct unearned income from the person's federal adjusted gross income for the purpose of applying the 1% tax rate to that income. The remainder (i.e., earnings) is taxed at the existing marginal rates.[2]

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[1] R.C. 5747.01(A)(30).

[2] R.C. 5747.02.

Before applying any tax rates, however, the taxpayer's personal exemptions are subtracted, first from the earnings component of income; if any exemption amount remains, it is subtracted from the taxpayer's unearned income. (The personal exemption amount is adjusted for inflation each year. For 2010, it was $1,600 per person.)

It is only advantageous for taxpayers with Ohio AGI above a certain threshold to claim the deduction for unearned income. This is because the lowest tax rate for 2013 is .587% for the first $5,000 of income. The threshold depends on the taxpayer's relative amounts of earned income, retirement income, and other unearned income.

Retirement income credit

Under existing law, a taxpayer may claim a credit of up to $200 for retirement income.[3] (Retirement income is any income from a pension, retirement, or profit-sharing plan, and is one form of unearned income.)

Under the bill, if a taxpayer chooses to apply the 1% tax rate to unearned income, the taxpayer is prohibited from also claiming the retirement income tax credit.

Code references to Ohio AGI

A person's Ohio AGI is used not only to determine the person's income tax liability, but also to determine several credits to which a person may be entitled. For example, a person who files jointly with a spouse is entitled to a "joint filing credit," the amount of which depends on the joint Ohio AGI. Other credits include the resident and nonresident credits, which are applicable, respectively, to Ohio residents who have income taxed by another state and to nonresidents who have some income taxable by Ohio and other income not taxable by Ohio. For purposes of determining these credits, a person's Ohio AGI includes the person's unearned income.[4]

HISTORY

ACTION	DATE
Introduced	02-10-11

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[3] R.C. 5747.055.

[4] R.C. 5747.01(A)(28).