Fiscal Note & Local Impact Statement

127 th General Assembly of Ohio

Ohio Legislative Service Commission
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BILL: **H.B. 516** DATE: **April 23, 2008**

STATUS: **As Introduced** SPONSOR: **Rep. Reinhard**

LOCAL IMPACT STATEMENT REQUIRED: **Yes**

CONTENTS: **Income tax deduction for interest from deposits in certain bank accounts**

State Fiscal Highlights

STATE FUND	FY 2009	FY 2010	FUTURE YEARS
General Revenue Fund			
Revenues	Up to $82.9 million loss	Up to $74.8 million loss	Up to $71.4 million loss
Expenditures	- 0 -	- 0 -	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2009 is July 1, 2008 – June 30, 2009.

- The deduction of interest income reduces the state income tax base and hence income tax revenue. The estimated income tax revenue loss is up to $88.0 million in FY 2009. The GRF will bear 94.1% of any revenue loss. The revenue loss decreases in FY 2010 because of the scheduled reduction in income tax rates.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2009	FY 2010	FUTURE YEARS
Local government funds (LGF, LLGSF)			
Revenues	Up to $5.2 million loss	Up to $4.7 million loss	Up to $4.5 million loss
Expenditures	- 0 -	- 0 -	- 0 -
School districts			
Revenues	Up to $2.1 million loss	Up to $2.1 million loss	Up to $2.1 million loss
Expenditures	- 0 -	- 0 -	- 0 -

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- The deduction of interest income reduces the state income tax base and hence income tax revenue. The estimated income tax revenue loss is up to $88.0 million in FY 2009. The local government funds will bear 5.9% of any revenue loss. The revenue loss decreases in FY 2010 because of the scheduled reduction in income tax rates.

- The revenue of some school district income taxes will be reduced due to a reduction in the tax base.

Detailed Fiscal Analysis

H.B. 516 allows taxpayers, beginning in tax year 2008, to deduct interest earned on savings accounts, checking accounts, certificates of deposit, or money market accounts when computing their Ohio income tax liability. Interest may be deducted if it has been included in the taxpayer's federal adjusted gross income (FAGI).[1] The maximum amount of interest that may be deducted for any tax year is $500 for separate returns and $1,000 for joint returns. The deduction is one of the adjustments to a taxpayer's FAGI in the determination of the taxpayer's Ohio adjusted gross income (OAGI). The deduction will reduce OAGI for taxpayers with eligible interest income and will result in a reduction in the taxpayer's tax liability. Because some school district income taxes use OAGI as their starting point, the deduction will also result in a reduction in revenue from these school district income taxes.

The revenue impact of the proposed deduction was estimated using a sample of returns for tax year 2005. The rate structures and personal exemptions for tax years 2008 and later were used. Summary information of federal income tax returns filed by Ohio taxpayers for tax year 2005 was used to estimate the amount of interest income included in FAGI.[2] Tax liabilities were calculated with and without the proposed deduction. The simulation yielded estimates of the changes in effective tax rates (tax as a percent of FAGI) that were applied to projected distributions of FAGI to obtain estimates of the changes in tax revenue.[3] The estimated revenue losses are sensitive to both the projected growth in FAGI and the projected distribution of FAGI. Assuming that the recent trends in the changes in the shares of FAGI for each income bracket continue, the income tax revenue loss for tax year 2008 was estimated at up to $88.0 million. The revenue loss for a given tax year was assumed to occur in the following fiscal year. The estimated revenue loss decreases for tax year 2009 (FY 2010) because of the scheduled reduction in income tax rates.[4] Any reduction in state income tax revenue will be shared by the General Revenue Fund (GRF), the Local Government Fund (LGF), and the Library and Local Government Support Fund (LLGSF). The GRF will bear 94.1% of the revenue reductions, the LGF will bear 3.68%, and the LLGSF will bear 2.22%.

[1] Generally, in computing FAGI all interest income is taxable unless specifically excluded.

[2] The summary information covered taxable interest income from all sources, not just those sources excluded by the bill. The estimation also assumed that the average interest income as a percent of FAGI for an income bracket applied to all taxpayers in that income bracket. Because of these factors, the estimated revenue loss is most likely overestimated by the simulation.

[3] The distribution of FAGI refers to the percentage shares of aggregate FAGI for each income bracket.

[4] Am. Sub. H.B. 66 of the 126th General Assembly reduced state income tax rates by 21% over a five-year period starting with tax year 2005. Tax year 2009 is the last year of the scheduled rate reductions.

The school district income tax, as originally designed, uses the same income base as the state income tax.[5] Exempting interest income from the state income tax would also reduce revenues to those districts levying the school district income tax against the same income base as the state income tax. Using the statewide percent of income from school districts levying this type of income tax and the average school district income tax rate, LSC estimated the revenue loss for the school district income tax at up to $2.1 million.

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[5] Am. Sub. H.B. 66 of the 126th General Assembly permits a school district to levy the school district income tax against an alternative tax base that includes only the earned income and self-employment income of school district residents. As of January 2008, 13 districts have adopted this alternative tax base.