

Fiscal Note & Local Impact Statement

127th General Assembly of Ohio

Ohio Legislative Service Commission
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BILL: **H.B. 534** DATE: **December 9, 2008**
STATUS: **As Introduced** SPONSOR: **Reps. Adams and Collier**
LOCAL IMPACT STATEMENT REQUIRED: **Yes**
CONTENTS: **Proposes phasing out personal income tax over ten years**

State Fiscal Highlights

STATE FUND	FY 2009	FY 2010	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	- 0 -	\$0.85 billion loss in FY 2011 \$1.8 billion loss in FY 2012 \$2.8 billion loss in FY 2013 \$4.0 billion loss in FY 2014 \$5.1 billion loss in FY 2015 \$6.3 billion loss in FY 2016 \$7.6 billion loss in FY 2017 \$9.0 billion loss in FY 2018 \$10.5 billion loss in FY 2019 \$12.1 billion loss in FY 2020
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 phasing out of income tax over ten years results in increasing loss of income tax revenue. The estimated income tax revenue loss increases from \$0.85 billion in FY 2011 to \$12.9 billion in FY 2020. The GRF will bear 94.1% of any revenue loss.
- The revenue loss increases over the period of ten years because the projected tax revenue under the proposed structure declines, while projected revenue under the current system is expected to increase.



Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2008	FY 2009	FUTURE YEARS
Local government funds (LGF, LLGSF)			
Revenues	- 0 -	- 0 -	\$53 million loss in FY 2011 \$112 million loss in FY 2012 \$180 million loss in FY 2013 \$250 million loss in FY 2014 \$320 million loss in FY 2015 \$400 million loss in FY 2016 \$480 million loss in FY 2017 \$570 million loss in FY 2018 \$660 million loss in FY 2019 \$760 million loss in FY 2020
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 phasing out of income tax over ten years reduces income tax revenue by increasing amounts. The estimated income tax revenue loss increases from \$0.85 billion in FY 2011 to \$12.9 billion in FY 2020. The local government funds will bear 5.9% of any revenue loss.
- The revenue loss increases over the period of ten years because the projected tax revenue under the proposed structure declines, while projected revenue under the current system is expected to increase.

Detailed Fiscal Analysis

H.B. 534 phases out the personal income tax over a period of ten years beginning in tax year 2010. The base amount for phasing out is the estimated tax revenue for each tax year, after deducting all applicable credits of that year. This amount is to be multiplied by the percentages indicated in Table 1 to calculate the tax liability for the tax years beginning in 2010:

Table 1. Percent of tax revenue to be paid for tax years beginning 2010									
2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
90%	80%	70%	60%	50%	40%	30%	20%	10%	0%

The income tax revenue loss is the difference between the income tax revenue with and without phasing out, and it ranges from \$0.90 billion for FY 2011 to \$12.9 billion for FY 2020. To estimate the tax revenue without the proposed phasing out, first the income brackets were inflation-adjusted for tax years 2010 through 2019 using the formula enacted in H.B. 66 of the 126th General Assembly and the forecast data on gross domestic product deflator.¹ Then the tax rates for tax year 2009 were used for all the years, changing only the amounts of personal exemption (in annual increments of \$50, starting with \$1,550 for tax year 2009). The simulation yielded estimates of the changes in effective tax rates (tax as a percent of federal adjusted gross income (FAGI)) for the tax years 2010 through 2019 that were then applied to the projected distributions of FAGI by income level to obtain estimates of the future tax revenue. The estimated revenue amounts are sensitive to both the projected growth in FAGI and the projected distribution of FAGI by income level. Recent trends in the changes in the shares of FAGI for each income bracket are assumed to continue throughout the ten-year period.

The revenue impact of the proposed phasing out was estimated using sample data for tax year 2005. The proposed percentage reductions were applied for the tax years from 2010 to 2019. The revenue loss for a given tax year was assumed to occur in the following fiscal year. Any reduction in state income tax revenue will be shared by the General Revenue Fund (GRF), the Local Government Fund (LGF), and the Public Library Fund (PLF). The GRF will bear 94.1% of the revenue reductions, the LGF will bear 3.68%, and the PLF will bear 2.22%. Details are in Table 2 below.

¹ For tax years beginning in January 2010, income amounts are adjusted by multiplying the percentage increase in the gross domestic product (GDP) deflator forecast for that year (source: Global Insight) by each income amount, and added to the previous year's income. The result was rounded to the nearest multiple of \$50. The tax dollar amounts were also adjusted accordingly.

Table 2. Projected income tax revenue loss (\$ million)			
Tax year	Projected loss of revenue	Loss to GRF	Loss to local government funds
2010	\$900	\$847	\$53
2011	\$1,900	\$1,788	\$112
2012	\$3,000	\$2,820	\$180
2013	\$4,200	\$3,950	\$250
2014	\$5,400	\$5,080	\$320
2015	\$6,700	\$6,300	\$400
2016	\$8,100	\$7,620	\$480
2017	\$9,600	\$9,030	\$570
2018	\$11,200	\$10,540	\$660
2019	\$12,900	\$12,140	\$760

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